
ADDENDUM

TO THE BOARD GOVERNANCE GUIDE FOR DIRECTORS – Best Governance Practices

OVERVIEW

Purpose

This Addendum is intended to provide Directors and Committees with broad guidance to assist in ensuring the effective stewardship of all Perley Health's assets in such areas as mission, strategic planning, risk management, reputation, and performance management. Sound stewardship goes well beyond fiduciary oversight to ensure compliance with legal requirements. It also ensures the long-term sustainability of Perley Health, while meeting the public's growing expectations for integrity, accountability, and transparency.

This Addendum reflects best practices for not-for-profit boards. It is meant to be reference material, instructive rather than prescriptive or directive.

Many chapters have a close alignment with the areas of responsibility of specific Committees. Where applicable, the chapters include selected passages from Accreditation Canada's Governance Standards to remind Directors of the governance standards against which Perley Health is routinely evaluated.

In addition, most chapters include at least one review checklist to assist members in annually assessing the effectiveness of the Board's performance in that aspect of its governance.

Layout

The eight chapters of this Part address:

- **Chapter 1 – Governance**
This chapter discusses governance in a general sense, setting out the four key characteristics of good governance – accountability, transparency, predictability and participation – and describes the role of the Board in governance. It provides guiding principles for determining those issues that most require Board attention.
- **Chapter 2 – Strategic Planning and Management**
Setting the corporate direction is one of the principal functions of the Board. This chapter provides comprehensive guidance for the strategic planning process, including the development of its strategic plan, overseeing its implementation and assessing its success.

- **Chapter 3 – Quality**
Perley Health is committed to the delivery of services that meet or exceed all applicable standards and regulations governing the provision of care for our residents and other clients. This chapter looks at quality from different perspectives, including the Board's responsibilities for maintaining organizational quality and continuing improvement.
- **Chapter 4 – Financial Stewardship**
This chapter provides a primer in the fundamentals necessary to understand financial statements, internal controls and the audit process. It also outlines seven basic building blocks for effective financial stewardship including: organization; planning; policies, process and guidelines; performance monitoring; external audit; and accountability.
- **Chapter 5 – Human Resources**
Recognizing that managing the day-to-day aspects of maintaining an effective workforce is the responsibility of the CEO, this chapter defines three key areas of related Board responsibility. These are its relationship with the Chief Executive Officer (CEO), setting the compensation of the CEO and the oversight of Perley Health's HR management.
- **Chapter 6 – Stakeholder Relations**
Perley Health is accountable to many diverse stakeholder groups, some of them vital to the long-term viability of Perley Health. This chapter addresses three broad functions essential to the effective maintenance of constructive relationships with these stakeholders (i.e. relationship building, public communications and advocacy). It addresses the respective responsibilities of the Board as well as of individuals in meeting these expectations.
- **Chapter 7 – Enterprise Risk Management**
Maintenance of the viability and integrity of Perley Health is a core responsibility of the Board. This chapter outlines the Board's role in managing the various dimensions of risk facing Perley Health. Since risk arises in virtually all aspects of the Board's oversight, it is something that must be addressed by all Board Committees.
- **Chapter 8 – Performance Management**
One of the Board's responsibilities is to oversee the performance of Perley Health, especially in terms of quality of care and services and of financial condition. This chapter identifies key areas of Board responsibility for performance monitoring.

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Chapter 1

GOVERNANCE

This chapter discusses the role of the Board in governance and differentiates the roles of the Board from those of management.

1.1 General

Governance may be defined as the exercise of authority, direction, and control of an organization in order to ensure that its purpose is achieved. The organization's structures, processes and traditions determine how authority is exercised, how decisions are made, how stakeholders have their say and how decision-makers are held to account.

Governance involves the provision of strategic leadership by setting direction, making policy and strategy decisions, overseeing and monitoring organizational performance, and ensuring overall accountability.

Traditionally, boards have been preoccupied with their **fiduciary responsibilities**, ensuring compliance with applicable laws, regulations and standards. Good governance also requires that boards participate with management in the development of the organization's **strategic directions** and goals. And increasingly, board members are being challenged to engage in **generative thinking**, determining today's visions in light of tomorrow's issues.

Four key characteristics of good governance are:¹

- **Accountability:** the capacity of the corporate members (or the owners) and other key stakeholders to call decision-makers to account for their actions. Effective accountability has two components: 'answerability' and 'consequences'. The first is the requirement to respond periodically to questions concerning one's official actions. The second is the need for the application of sanctions for breach of rules.
- **Transparency:** timely access by the corporate members and other key stakeholders to low-cost, relevant, reliable information about finances, products or services and management of resources.
- **Predictability:** refers to the conduct and actions of elected officials (Directors and officers) and appointed staff. Predictability results primarily from laws, regulations and role definitions that are clear, known in advance, fair, and uniformly and effectively enforced.
- **Participation** (or engagement): the involvement of the corporate members and other key stakeholders in planning, decision processes and evaluation. This allows the Board to obtain reliable information, serves as a reality check and watchdog, spurs operational efficiency, and provides feedback by users of public services necessary for monitoring access to and quality of services.

¹ Adapted from *Governing for Results* by Mel D. Gill, 2005.

These characteristics are essential for the development of a culture of openness, trust and stakeholder confidence that will inspire commitment to Perley Health's mission, encourage excellence in governance and nurture a healthy balance between stability and innovation.

1.2 Role of the Board in Governance ²

The Board's job is to govern the affairs of the Corporation within the framework of relevant legislation and standards. The governance task may be seen as:

- Ensuring compliance with all legal requirements;
- Strategic planning including the establishment of the vision, mission and core values of Perley Health;
- Monitoring Perley Health's quality of performance, not just in the delivery of care services but also organizational performance in areas such as financial performance and external relations as well as the Board's own performance;
- Providing sound stewardship of all Perley Health resources including financial and human resources, plant and equipment and information technology;
- Oversight of Management;
- Identification and analysis of significant risks threatening the fulfillment of Perley Health's vision, mission and strategic objectives;
- Accountability to stakeholders and overseeing the maintenance of mutually beneficial relations with them; and
- Maintaining appropriate structures, relationships and procedures for the continuing effective governance of Perley Health.

1.3 Stewardship ³

The term Stewardship is frequently associated with governance. Stewardship implies trust on behalf of the owners or stakeholders. Stewardship requires not only diligence and care in overseeing compliance with the letter of governing legislation and regulations, but also with their intent.

Because many not-for-profit corporations receive public funding and, in the case of charitable corporations, special tax status, the public often has a legitimate interest in how they operate. Concerns may arise from ineffective or inappropriate use of public funds, unfair competition with the private sector, etc. Such actions will undermine a corporation's purpose and value system, as well as its reputation.

A corporate commitment to transparency is essential to earning and maintaining public trust. While openness cannot resolve underlying corporate problems, lack of disclosure can certainly magnify the harm to the corporation.

Sustainability of Perley Health requires public support from many quarters. The Corporation's long-term health requires careful stewardship in all its activities. To this end, Directors must always act in accordance with best governance practices, and be mindful of how a particular action or decision may be seen by the public. Such

² Adapted from OHA *Guide to Good Governance*.

³ This section is adapted from "*Primer for Directors of Not-For Profit Corporations*", Industry Canada 2002.

“stewardship” is essential if Perley Health is to meet the public’s growing expectations for integrity, accountability and transparency by non-for-profit health care service providers.

1.4 The Board and Management

The Board is not responsible for day-to-day management. Basically, the Board governs, and Management manages. The Board's role is to see that Perley Health is well managed, but its role is not to manage the organization.

Day-to-day management is delegated by the Board to the CEO. The Board exercises oversight of Management. Accordingly, the Board's role with respect to each of the areas identified above is a governance role and not a management role.

The relationship between the Board and Management is fundamental to the quality of governance. Understanding the distinction between governance and management can be challenging for any board. The quality of governance is compromised when boards indulge in activities that are more appropriately, or even solely, within the purview of management. The board then loses both its focus and the time it needs to spend on board business.

1.4.1 Differentiating Board and Management Roles

The following table differentiates the respective roles of boards and management.⁴

Board's Roles	Management's Roles
Select, evaluate and support the CEO	<ul style="list-style-type: none">▪ Run the organization in line with Board direction▪ Keep the Board educated and informed▪ Seek the Board's counsel
Approve high-level organizational goals and policies	<ul style="list-style-type: none">▪ Recommend goals and policies with necessary and sufficient supporting rationales
Make major decisions	<ul style="list-style-type: none">▪ Frame major decisions in the context of the mission and strategic vision, and provide the Board with well documented recommendations▪ Implement decisions
Oversee management and organizational performance	<ul style="list-style-type: none">▪ Provide the Board with timely information in concise, contextual and comparative formats▪ Communicate with candour and transparency
Act as external advocates and diplomats in public policy, fundraising, and stakeholder community relations.	<ul style="list-style-type: none">▪ Keep the Board informed, bring the Board recommendations, and mobilize Directors to leverage their external connections to support the organization.

⁴ Adapted from *Great Boards*, the on-line governance newsletter by Barry S. Bader, Fall 2008, Vol. VIII, No. 3.

1.4.2 Seven Guiding Principles ⁵

Even when the mutual roles of the Board and Management are understood, there often remains a grey area in the middle. Different situations demand different levels of Board involvement. Adverse indications may call for closer Board oversight; e.g. continuing subpar performance, allegations of improprieties, etc. In such cases, more detailed information than normal should be sought. In the absence of adverse indications, governing boards function best when focused on higher level, future oriented matters of strategy and policy.

Seven questions can help guide the Board and Management in determining their appropriate roles for any matter of Board oversight or decision-making.

- 1. *Is it big?*** The bigger the impact of a decision, the more the Board ought to play a role in shaping and understanding the action and its possible consequences. An example of a matter of strategic importance would be an organizational decision impacting roughly ten percent of revenues or activities. Planning on how to implement a Board decision is Management's responsibility.
- 2. *Is it about the future?*** The Board's focus should be on the organization's long-term vision, its ten-year financial projection and its master facility plan. The Board should rely on Management to develop the details of the strategic plan. The Board's strategic plan should focus on such aspects as quality, growth, finances, and people with measurable goals and indicators for each. If the Board's strategic plan has more than five or six strategic areas or more than 20 strategic initiatives, the Board is getting too far into Management's operating plan.
- 3. *Is it core to the mission?*** The Board is the guardian of the mission. The Board must examine strategic and financial decisions in the context of its mission. Management should bring the Board well documented analyses and recommendations to help Directors strike the right balance when mission and financial realities come into conflict.
- 4. *Is a high-level policy needed to resolve a situation?*** Long-term care homes require hundreds of operating policies governing various aspects of clinical care, finance, personnel, etc. These are not Board matters. However, some issues arising from day-to-day activities may indicate a systemic issue warranting a restatement, clarification or amendment of a Board policy. Policies requiring Board approval are those that have a major impact on the organization, require compliance with laws or regulations, or affect the responsibilities and conduct of the Board or Management.
- 5. *Is a red flag flying?*** Red flag issues may first be noticed in monitoring trends (one rule of thumb states that a statistically significant over- or under-performance on a strategic, quality or financial indicator over three reporting periods constitutes a trend). The Board should also be alerted by sentinel events such as reports of illegal activity or sudden dramatic underperformance. Other red flags may arise in auditors' reports, accreditation survey results, etc. To avoid slipping from governance into management, the Board must ascertain whether Management recognizes the scope of the problem, and has the capability to improve the situation and plans to do so. Follow up is required to ensure that Management is accountable for producing satisfactory results.

⁵ Adapted from Bader, op. cit.

6 *Is a watchdog watching?* If the legislative or regulatory bodies or the media care, the Board should care. Hot button issues can include lapses in resident or client care, medical errors, executive compensation, and publicly available quality reports. The Board should be engaged for such high-profile issues, reviewing appropriate policies, overseeing performance, and ensuring that the organization is pro-active in its communications.

7. *Does the CEO want or need the Board's support?* If the CEO asks for Board advice or intervention, Directors should respond. When the CEO is facing particularly tough decisions such as labour strife, contract negotiations, terminations of personnel or contracts, etc., the CEO must know that the Board will stand firm. For example, the CEO may seek the Board's support in challenging Management to improve organizational performance, or the CEO may ask for help from particular Directors with connections to key legislators, community stakeholders, etc.

1.5 Governance Standards

Accreditation Canada conducts accreditation surveys for health service providers in Canada, including Perley Health. In response to the growing demand for excellence in health care delivery in Canada, Accreditation Canada has established a set of governance standards.⁶

The standards relating to the governing body are grouped into four sections based on the following functions:

- ***Functioning as an effective governing body:*** Addresses the internal development of the governing body, including composition, structure, and roles and responsibilities.
- ***Developing a clear direction for the organization:*** Addresses the process for defining the organization's mission and long-term vision, including broad organizational goals and values.
- ***Supporting the organization to achieve its mandate:*** Addresses the governing body's role in the processes that support the organization's achievement of its strategic goals and objectives. It includes the recruitment and evaluation of the Chief Executive Officer (CEO), relationships with the CEO and the organization's other leaders, and resource allocation.
- ***Being accountable and achieving sustainable results:*** Addresses accountability (including stakeholder and community relations) and organizational performance (including quality improvement and risk management).

Accreditation Canada's Governance Standards are summarized in Appendix A. These standards provide a comprehensive overview of the types of things generally considered to demonstrate good governance in Canada's health care sector today.

One of these standards is that the Board must have a defined and formal process for decision making. The Board has adopted a simple decision framework that proposes the key questions/criteria that Board members should address before taking a decision. It is set out below:

⁶ Accreditation Canada's Governance Standards.

PERLEY HEALTH BOARD OF DIRECTORS’ DECISION MAKING FRAMEWORK

Decision Sought

Background to the Issue

Key Decision Influences or Considerations

1. Strategic Fit
 - Alignment with mission, vision, and strategic plan; and
 - Alignment with ministry and other governing body regulations, legislation and priorities.
2. Client Implications (quality and safety)
3. Stakeholder and Partner Impacts
4. Values and Ethics Considerations
 - *Core Values* - compassion, respect, integrity and excellence; and
 - *Business Values* such as equity, efficiency, transparency, and effectiveness (etc.)
5. Risk Considerations
6. Operational Considerations
 - Financial, Human Resources and others.

Recommended Board Follow-Up Strategy

1. Key Measures for Monitoring
2. Evaluation Process
3. Role of Board and Management

(Board approved: April 3, 2014; revised and approved May 3, 2018)

1.6 Conducting a Governance Audit

The Board is responsible for its own governance. It must ensure that the structures and processes to facilitate governance are effective. This includes such aspects as: Board recruitment, training, evaluation and succession planning; Board structures and processes including position descriptions for officers, Board and Committee Chairs and Board members; terms of reference and reporting processes; education; and evaluation processes.

Governance audits permit the Board to assess the degree to which the Board is able to discharge its fiduciary and strategic duties in a manner that ensures accountability to stakeholders and that the organization's mission and strategic goals and objectives are achieved. The audits ask whether the processes and elements that the Board has adopted are effective in supporting Board performance and are within the range of best practices for similarly situated organizations.

A governance audit can be broad or limited in scope. When a Board evaluates its meeting effectiveness at the end of a Board meeting, it is conducting a limited audit. Annual Board performance evaluations are another form of governance audit. A full audit would involve looking at every aspect of governance. Accreditation Canada's quadrennial accreditation surveys constitute a major form of governance audit.

The Board might consider conducting a comprehensive Governance Audit one year prior to an Accreditation Canada governance survey. The process for conducting a governance audit may include the following:

- Determining the scope of the audit process that will be undertaken;
- Conducting an inventory of governance processes and practices. During this information gathering phase, it may include an examination of governance documents, Board policies and decisions, and surveys of Board members;
- Evaluating current governance practices against both legal and Perley Health policy requirements, as well as against best practices in similarly situated health care corporations;
- Considering whether the documentation for governance processes reflect actual processes;
- Assessing areas where change may be appropriate;
- Considering whether there are any significant gaps in the Board's governance processes; and
- Making any recommendations for change deemed necessary.

Appendix B (Governance Review Checklist (from Ontario Hospital Association's *Guide for Good Governance*)) is included, in addition to Appendix A (Accreditation Canada's Governance Standards), to assist the Board and the Governance Committee in auditing the effectiveness of the Board's governance.

1.7 Governance Committee

To assist the Board in the fulfillment of its governance responsibilities, it has one standing committee to advise on governance matters.

The Governance Committee oversees the development of the Board, its conduct and its performance, and advises the Board on ethics policy and corporate values.

The Terms of Reference for this and other Board Committees are found in Appendix A of Chapter 3 in Part II of the Board Governance Guide for Directors.

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Appendix A
to Chapter 1 of the Addendum

Accreditation Canada Governance Standards

1.1 Governance

- 1.1.1 The roles, responsibilities, and legal obligations of the governing body are defined and regularly reviewed.

Guidelines

As a rule, the governing body is accountable for the quality of services/care, and supports the organization to achieve its goals, consistent with its mandated objectives and its accountability to stakeholders. In carrying out this mandate, the governing body selects the executive leader of the organization, oversees processes for granting privileges (where applicable), approves major policies, makes decisions that impact the organization's long-term sustainability, oversees the organization's performance, and serves as an external advocate.

Applicable legislation is considered when defining or updating roles, responsibilities, and accountabilities.

Where there are several levels of governance, the roles and responsibilities are well defined and understood by each level, information flows smoothly and consistently between levels, and the governing body coordinates and integrates its work with each level.

When government is actively involved in the oversight of the organization, the scope of authority and roles and responsibilities of the governing body and the government are well defined, either by government or by government working with the governing body.

The governing body defines what “regularly” means and adheres to that schedule.

- 1.1.2 There are established mechanisms in place for the governing body to hear from and incorporate the voice and opinion of residents, families and/or caregivers.

Guidelines

Mechanisms may include establishing resident, family and/or caregiver advisory councils, inviting community health boards to present, or hearing directly from residents, families and/or caregivers about their experience(s) with the organization.

- 1.1.3 The governing body has processes in place to oversee the functions of audit and finance, quality and safety, and talent management.

Guidelines

Depending on the size and organization of the governing body, these functions may be overseen by the governing body itself as a committee as a whole, or by separate sub-

committees. In instances where separate sub-committees are required, the governing body defines terms of reference and reporting requirements for each committee.

The processes used by the governing body or its sub-committees to monitor these functions may include defining the number of meetings where audit and finance, quality and safety, and talent management will be discussed and setting regular opportunities to connect with the organization's leaders to get updates on the organization's activities.

- 1.1.4 The governing body provides oversight of the organization's efforts to build meaningful partnerships with residents, families and/or caregivers.

Guidelines

A growing body of evidence demonstrates that improving the resident experience and developing meaningful partnerships with residents, families and/or caregivers are linked to improved health outcomes. Governing bodies educate themselves on the principles of people-centred care and demonstrate the organization's culture is focused on people-centred care.

- 1.1.5 The governing body monitors and evaluates the organization's initiatives to build and maintain a culture of people-centred care.

Guidelines

There are a variety of ways that governing bodies can evaluate the people-centred care initiatives, including reviewing resident experience results, measuring the number of teams that have implemented the organization's people-centred care philosophy and how they have done so, and monitoring the number of resident, family and/or caregiver advisors actively participating on advisory councils.

- 1.1.6 The governing body oversees the recruitment and selection of the executive leader of the organization.

Guidelines

Where the executive leader is appointed by an external body such as government or is specified in legislation, the governing body still plays a role in identifying potential candidates and in the screening, nomination, and selection process.

- 1.1.7 In partnership with the executive leader of the organization, the governing body sets performance objectives for the executive leader and reviews them annually.

Guidelines

The performance objectives are tied to the organization's strategic goals and objectives, and quality and safety outcomes.

- 1.1.8 The governing body has a mechanism in place to receive updates or reports from the executive leader of the organization.

Guidelines

Governing bodies may choose to have the executive leader provide a written report or present at the governing body's meetings.

- 1.1.9 The governing body approves the organization's capital and operating budgets.

Guidelines

The governing body reviews the annual capital and operating budgets and the impact of these budgets on the organization's mandate, the strategic goals and objectives, and health outcomes.

- 1.1.10 When approving resource allocation decisions, the governing body evaluates the impact of the decision on quality, safety, and resident experience.

Guidelines

Depending upon the organization's scope of services, resources may be distributed across populations, geographic regions served, and the continuum of service. Before approving budgets or making allocation decisions, the governing body assesses the costs and benefits of each decision and the impact on the ability to provide services according to the organization's mandate, while giving consideration to the impact on residents, families and/or caregivers ethics, values, social costs and benefits, value for money, and sustainability.

- 1.1.11 The governing body monitors organization-level measures of resident safety.

Guidelines

The governing body receives regular reports and updates on measures related to resident safety, such as organization-wide infection rates, or data on resident falls or medication reconciliation. The data are compiled at the organization level rather than at the program or team level, presenting a global picture of resident safety in the organization, and play an integral part in the governing body's strategic planning process.

- 1.1.12 The governing body regularly hears about quality and safety incidents from the residents, families and/or caregivers that experience them.

Guidelines

Hearing about a safety incident provides additional context that cannot be gleaned from hearing about numbers or frequency of incidents. This context provides valuable information on next steps for improvement and incident prevention.

The information can be shared directly (face-to-face), in writing, through a representative group, or in other ways that best meet the organization's, governing body's, and community's needs.

- 1.1.13 The governing body demonstrates accountability for the quality of care provided by the organization.

Guidelines

Governing bodies are accountable for the quality of care provided by their organizations. When governing bodies are engaged in overseeing quality, their organizations have better quality performance (better care, better resident outcomes, better worklife, and reduced costs).

The members of the governing body need to be aware of key quality and safety principles if they are to effectively understand, monitor, and oversee the quality performance of the organization. Knowledge gaps among the membership can be addressed through targeted recruitment for specific competencies (e.g., quality assurance, risk management, quality improvement, and safety) from health care or other sectors (e.g., education or industry) or by providing education through workshops, modules, retreats, virtual networks, or conferences.

The governing body can demonstrate a clear commitment to quality when it is a standing agenda item at each meeting. Often the governing body overestimates the quality performance of an organization, so discussions need to be supported with indicator data and feedback from residents, families and/or caregivers. A small number of easily understood performance indicators that measure quality at the system level (i.e., big-dot indicators) such as the number of residents who died or were harmed by resident safety incidents, quality of worklife, number of complaints, and resident experience results will help answer the question, “are the services we provide getting better?”

Quality performance indicators need to be linked to strategic goals and objectives and balanced across several priority areas. Knowledge gained from the review of quality performance indicators can be used to set the agenda, inform strategic planning, and develop an integrated quality improvement plan. It can also be used to set quality performance objectives for senior leadership and to determine whether they have met their quality performance objectives.

Tests for compliance

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| 1.1.13.1 | The governing body is knowledgeable about quality and safety principles, by recruiting members with this knowledge or providing access to education. |
| 1.1.13.2 | Quality is a standing agenda item at all regular meetings of the governing body. |
| 1.1.13.3 | The key system-level indicators to be used for monitoring the quality performance of the organization are identified. |
| 1.1.13.4 | At least quarterly, the quality performance of the organization is monitored and evaluated against agreed-upon goals and objectives. |
| 1.1.13.5 | Information about the quality performance of the organization is used to make resource allocation decisions and set priorities and expectations. |
| 1.1.13.6 | As part of their performance evaluation, leaders who report directly to the governing body (e.g., the CEO, Executive Director, Chief of |

Staff) are held accountable for the quality performance of the organization.

- 1.1.14 The governing body publicly discloses information about its governance processes, decision making, and performance.

Guidelines

Expectations for public disclosure apply particularly to public sector organizations.

While these expectations continue to evolve, most governing bodies are expected to disclose information about:

- membership and processes for identifying new members
- scope of authority and roles and responsibilities
- any sub-committees, including terms of reference and membership
- the roles and responsibilities of the chair
- the roles and responsibilities of individual members and the process to assess their performance
- their attendance, and remuneration if applicable
- the position profile of the executive leader and process for evaluating the executive leaders' performance
- the ethics framework and the process to disclose conflicts of interest
- the approach to the orientation and education of its members
- the communication plan and practices of public disclosure

1.2 Leadership

- 1.2.1 Support is provided for activities that improve the quality of worklife and health and safety of the work environment.

Guidelines

The organization's healthy and safe work environment activities are aligned with its strategic direction, goals, and objectives. Activities that improve quality of worklife and create a healthy and safe work environment may include:

- role modelling
- teaching and coaching teams
- motivating teams

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Appendix B
to Chapter 1 of the Addendum

Governance Review Checklist ⁷

Checklist of Governance Practices	Status of Governance Practices & Recommendations
1. Legal Structure	
a. Review of Letters Patent, Supplementary Letters Patent, Transfer Agreement?	
b. Date of most recent Bylaw Review and Update?	
c. Date of most recent Service Accountability Agreement?	
d. Date of most recent Governance Review?	
2. Role of Corporation and Accountabilities	
a. Role of the corporation (provide copies of: objects/purpose, mission, vision and values, strategic directions, etc.)?	
b. Date of last strategic plan. Date of next review.	
c. Identify the Corporation's accountabilities and key relationships. Is there a formal statement of corporate accountability? Date of last review?	
3. The Board's Governance Role	
I. Define the role of the Board	
a. Board exercises a governance role in the following areas: strategic planning, financial oversight, risk/quality oversight, CEO and staff supervision, succession planning, communication and governance. Has the Board expressly adopted a statement of the Board's role? Date of last review?	
b. Is there an annual Board work plan?	
II. Provide an outline of how the Board performs its responsibilities for the following areas of Board performance:	
a. <u>Strategic planning</u> – ensuring a strategic plan is developed with Board participation and ultimate Board approval, ensure annual review by management and Board?	
b. <u>Oversight of management (CEO)</u> – develop and approve CEO job description; select the CEO; review and approve the CEO's annual performance goals; ensure succession plans are in place for CEO and senior management; exercise oversight of the CEO's supervision of senior management as part of CEO's annual review?	
c. <u>Quality and risk identification and management</u> – ensure quality standards and indicators are established and approved by the Board; ensure Board understands its role in relation to risk;	

⁷ Based on *Guide to Good Governance*, by Ontario Hospital Association.

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ensure processes are in place for identifying risks; and that plans are developed and implemented to monitor and manage risks?	
d. <u>Financial oversight</u> – stewardship of financial resources including setting policies for financial planning; approving annual budget; monitoring performance; approving investment policies; and approving audited financial statements?	
e. <u>Governance</u> – the Board is responsible for quality of its own governance; the Board establishes and periodically assesses policies regarding Board conduct and processes; the Board reviews its governance structures (board size/composition, committee mandates and composition, officers, meeting effectiveness, etc.) at periodic intervals; the Board is responsible for its own succession and ongoing quality (education) and to monitor Board and individual director's effectiveness through annual evaluations?	
f. <u>Communications and Accountability</u> – ensure organization appropriately communicates with its stakeholders in a manner consistent with accountability to stakeholders?	
4. Duties, Obligations and Expectations of Individual Directors	
a. <u>Fiduciary</u> obligations to adhere to and observe the standard of care expected of a director and to obey the “Rules of Fiduciary Conduct”. The standard of care is to act honestly and in good faith and in the best interests of the Perley Rideau and to apply the skill and judgment that might reasonably be expected of a person with the same level of skill (special expertise must be applied). Is there a formal policy with respect to the Directors' duties? How are Directors made aware of their duties and obligations?	
b. <u>Rules of fiduciary conduct</u> <ul style="list-style-type: none"> • Avoid conflict of interest? • Corporate obedience – solidarity, board speaks with one voice? • Confidentiality? • Loyalty – act in interest of Perley Rideau as a whole and not any one group or representative body? • Board Code of Conduct describing the rules of fiduciary conduct? 	
c. <u>Attendance</u> - Describe expectations regarding the level of attendance and participation at Board and committee meetings. How are these expectations communicated?	
d. <u>Self-evaluation or peer review</u> - Describe participation in Board and individual Director evaluation?	
5. Board Governance Policies	
a. Formal <u>governance policy manual</u> is available?	
b. Date of last review?	
c. Process for updating?	
6. Board Composition and Recruitment	

I. Board Size and Composition	
a. Identify number of elected/appointed/ <i>ex officio</i> directors. List <i>ex officio</i> Directors by office?	
II. Board Quality	
a. Is there a process to identify skills required of Board members?	
b. Is a Board profile or skills matrix of the current Board maintained?	
c. How are prospective nominees identified? Is a roster of eligible candidates maintained?	
d. How are prospective Board candidates advised with respect to the role and expectations of Directors?	
e. How are prospective candidates evaluated?	
f. Who makes the recommendation of approved candidates?	
g. How are elections held at Annual Meetings?	
III. Term of Offices	
a. Board term (initial, renewal and maximum terms)?	
b. Committee chair terms (initial, renewal and maximum terms)?	
c. Other terms (initial, renewal, and maximum terms)? Identify officers	
7. Officers	
a. There is a clear process to select officers and committee chairs?	
b. Are position descriptions prepared and periodically reviewed?	
8. Board Committees	
a. Do committees have written mandates?	
b. Are committee mandates reviewed periodically?	
c. How are committees established? Committees are established pursuant to governance principles? (Committees do Board work, not management work?) How are committee reports and recommendations handled by the Board?	
d. Is the Audit committee comprised of independent Directors?	
e. Is there an Executive Committee and how does it report to the Board? Describe decision making role for the Executive Committee?	
9. Board Orientation, Education and Evaluation	
a. Is Board orientation mandatory? How is orientation conducted?	
b. Is there a written manual for new Board members?	
c. Is there a clear process for Directors to participate in external education programs?	
d. How is Board education conducted?	
e. What is the frequency of continuing education for Directors?	
f. Is an annual Board retreat held? Date of last retreat, attendance and agenda?	
g. Is there an annual evaluation of the performance of individual Directors and the Board as a whole? Provide a copy of the evaluation tool and describe process for providing feedback and acting on results?	

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10. Board Governance Policies	
a. Provide sample Board agendas. Is Board work aligned with the annual Board goals and work plan?	
b. Are decision items separated from information items?	
c. Is specific time allocated for agenda items and is time allowed adhered to?	
d. What is the process to bring forward Board committee's recommendations and reports?	
e. Are meetings regularly evaluated? Using what evaluation tool?	
f. Are meetings open and is there a proper use of <i>in camera</i> sessions?	
g. Does the Board meet without management from time to time?	
h. Is there a clear policy that allows the Board to obtain independent advice (legal, financial or other?)	

* * * * *

Chapter 2

STRATEGIC PLANNING AND MANAGEMENT ¹

This chapter provides guidance for the strategic planning process, including differentiation between Board and management responsibilities in this process. It also provides guidance for the review and assessment of progress in meeting the strategic directions and fulfillment of the vision.

2.1 General

One of the most important responsibilities of the Board of Directors is to provide general guidance and direction for Perley Health. Strategic planning is the comprehensive framework for planning, setting priorities, and making decisions. Strategic planning and review is a key component of effective risk management and effective organizational stewardship. Good planning results in better communication and a better understanding of how various parts of an organization work together to produce desired results. Strategic planning deals with questions such as: What do we do? For whom do we do it? How do we excel?

The Strategic Plan, management's annual operating plan, and the capital and operating budgets are vital components of Perley Health's strategic management processes. As such they each require the approval and continuing oversight of the Board of Directors to ensure the fulfillment of the broad directions laid out in the Strategic Plan.

The Strategic Plan records the decisions the Board has made with respect to its strategy intentions. The plan includes broad strategic directions and the general goals for each, as well as the rationale, analyses and background information supporting those decisions.

The full strategic planning process is completed every three to five years with a planning horizon that may stretch 10 to 15 years. The strategic planning process is iterative and collaborative involving Management and staff, stakeholders, as well as the Board.

2.1.1 Standards for Strategic Planning

Accreditation Canada has established a set of governance standards. In the area of strategic planning for health service providers, standards are provided for "Developing a clear direction for the organization". These are reproduced at Appendix A to Chapter 1.

¹ This Chapter draws heavily from the Ontario Hospital Association's "Guide to Good Governance", Chapter 5.

2.2 Strategic Management

The strategic plan describes how Perley Health intends to move from where it is now towards its Vision in accordance with its Vision, Mission, Values and tolerance for risk. In so doing, it plans to use its strengths to take advantage of opportunities, to remedy its weaknesses, and to avoid or mitigate threats.

From the Strategic Plan, which typically takes a longer-term view, Management develops shorter term operating plans for staff and budgets for the revenues and expenditures needed to move towards the Vision.

Finally, the organization monitors its progress against targets and budgets and uses the lessons it learns from experience to enhance the next round of planning and budgeting.

In contemporary management, this cycle of strategic thinking, analysis, and performance review is referred to as **strategic management**, implying a collaborative Board and Management involvement.

Strategy, strategic direction and strategic management are about the “big picture” and generally involve the following:

- The definition of success for the organization, including the basic framework of goals and policies that guide the activities of the organization over the long term.
- The approach to be taken to be successful, including the assignment of resources and the development of the requisite organizational competencies;
- The positioning of the organization in relation to others in the sector in terms of whom it serves, and the programs and services to be offered.

While approval of the strategic and operating plans and the capital and operating budgets are key responsibilities of the Board of Directors, the Board delegates the detailed work to Management and Management-led Committees. Nevertheless, the Directors should satisfy themselves that the planning and budgeting processes were properly organized, conducted and documented. A summary of Board and Management responsibilities is included in Appendix A to this Chapter.

2.2.1 Components of Strategic Management

The Board’s involvement in strategic management comprises three components:

Strategic Framework

The first is approving the strategic framework for Perley Health for the long term. The key elements of this framework include the mission, the vision and the corporate values².

- **Mission.** Typically, the mission is a short statement of the organization’s purpose: what we do, for whom and why. The mission statement is generally broad and its fundamental content should remain relevant for a long time.

² Perley Health’s Vision and Mission and its Core Values are outlined in Chapter 1 of Part I of this Governance Guide. The *Code of Ethical Conduct* can be found with the other Board policies in Part IV.

- **Values.** The values statement is a collection of norms, principles and commitments that Perley Health believes in and plans to live by. The corporate values are enduring, with changes being more about form than substance.
- **Vision.** Whereas the mission statement describes the purpose of Perley Health, its vision describes what the Corporation plans to accomplish or what it expects to become in the fullness of time.

Setting Medium Term Strategic Directions

Consistent with the mission, vision and values, the Strategic Plan should first outline the broad strategy to be embraced over the next 10-15 years in order to realize the vision. This includes any specific strategies to be followed, the major objectives to be achieved and the general sequence or phasing of effort. Flowing from this context, the strategic plan provides a set of directions and initiatives to guide the investment of resources and effort for the next few (usually five) years. These directions may include:

- A goal or time-bound vision with more substantive objectives for Perley Health for the medium term;
- Strategic directions (objectives or themes) that build towards the long-term vision. These may include changes to strategic positioning (e.g. who is to be served or what new services are to be offered);
- Defining organizational capacity and characteristics needed to succeed;
- New initiatives envisaged for moving towards the new vision and strategic positioning, and for improving the organization's capacity and performance.

The key is that these directions (themes, initiatives, objectives, etc.) involve achieving or doing something specific. They should be measurable in that clear targets and indicators can be defined to demonstrate when the directions have been fulfilled and the intended results achieved.

Approving Major Decisions

Not everything important or strategic can be anticipated in the Strategic Plan. Thus, an essential element of strategic management includes the review, questioning, provision of advice to Management, and ultimately the approval of unplanned major decisions facing Perley Health.

- Some of these decisions may relate directly to the implementation of the strategic framework and directions;
- Other decisions required may emerge between planning cycles, some of which may necessitate amendment of the long-term vision or mission statements;
- In either case, the Board needs to maintain the strategic “big picture” to ensure that decisions and directions are in the best long-term interests of the Corporation.

2.3 Strategic Planning

Strategic planning requires a disciplined, systematic process to define the purpose and direction of Perley Health, recognizing the current and future state of the external and internal environment within which it operates. These functions are carried out by the Strategic Planning Working Group.

2.3.1 Timing

How often and when should Perley Health undertake such effort? Considerations relating to the timing of strategic planning include:

- Strategic planning across the whole organization requires a major investment of time and effort for research, external consultation, analysis, and deliberation by the Strategic Planning Working Group and Management for approval by the Board, typically over six to eight months;
- A regular strategic planning process is an effective method for the Board to fulfill its strategic management role by:
 - Reviewing (and if necessary rethinking) Perley Health's strategic framework and directions;
 - Facilitating Management's work for the forthcoming operational planning and budget cycle.
- Typically, Perley Health's strategic plans focus on the next five years. However, the environmental scan, strategy and long-term vision should look out 10 to 15 years.
- A new Strategic Plan may be undertaken any time at the Board's direction. The need is generally indicated by:
 - Key assumptions of the current plan being overtaken by events;
 - Externally dictated changes by government. (In such cases, regardless of the normal strategic planning cycle, Board and Management will need to focus on implementing the necessary change before a new look at the long term can be undertaken.)

2.3.2 Strategic Analysis

Effective strategic analysis may comprise many elements; a few key considerations and tools are briefly outlined below.

Situational Assessment and Environmental Scan

The starting point for the strategic planning process is the existing Strategic Plan (mission, vision, values, directions, goals, etc.) as well as governmental requirements, such as changed legislation or regulations, service accountability agreements, etc.

A situational assessment sets out the context for the planning from both an internal and an external perspective to include a review of the current situation, trends and forecasts of emerging trends.

- The external scan should consider such factors as:
 - Health sector trends;
 - Geopolitical trends;
 - Economic and Funding trends;
 - Legislative changes and possibilities;
 - Demographics and population health indicators;
 - Alternative sources of seniors' care;
 - Technology trends; etc.

- The internal scan should consider such factors as:
 - Recent performance indicators for care;
 - Financial condition and performance;
 - Asset and infrastructure condition;
 - Technology capability and requirements;
 - Human capital (strengths and capacity);
 - Innovation and new programs;
 - Community and stakeholder relationships; etc.

A situational assessment using the four-box format of a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis is a useful tool for summarizing the circumstances facing the planners as revealed by the environmental scans.

Strategic Issues. From this type of global thinking, strategic issues begin to emerge. Such issues may relate to:

- Common themes emerging from the situational assessment and SWOT analysis;
- Significant gaps in operational performance between actual and targeted performance, including comparisons to external benchmarks;
- Key success factors warranting greater attention for the fulfillment of the long-term vision.

Strategic Directions. The formulation of propositions for broad strategic action follows logically from the identification of strategic issues warranting corporate action. These proposed strategic directions should set out broad areas for action and investment in terms of time, energy and dollars. The number of directions should be relatively few, providing a few focal points for operational planning by Management. They should reflect the following:

- An updated strategic framework (vision, mission and values statements);
- Each strategic direction should open doors to a number of action areas or initiatives which will likely require extensive time to implement;
- Action should start within a year, but downstream benefits may accrue primarily in the medium to long term;
- Wherever possible, specific targets should be set as a basis for measurement or judging whether the objectives have been met.

Validity of Assumptions. In formulating plausible strategic directions, the Strategic Planning Working Group should challenge the validity of the implicit assumptions including such aspects as:

- Government funding levels and donor contributions;
- Legislation and regulations affecting health care delivery;
- Project costs and timeframes; and
- Stakeholder and market response to the new initiative.

Scenario Analysis. It would be impossible to anticipate and plan for every possible contingency. However, discussing the assumptions and the potential consequences and probability for each can strengthen the rigour of the planning process.

By examining various scenarios of changing assumptions, the Board's strategic directions are more likely to withstand the test of time. Scenario analysis involves asking such questions as:

- What other assumptions might be appropriate?
- How might things turn out under different assumptions?
- How probable are the different assumptions?
- What are the best- and worst-case scenarios?
- What strategies would most likely succeed?
- What alternative strategies might be suitable?

Risk Assessment.³ Here, the Board's role becomes more critical – striving to find a comfortable balance between taking advantage of opportunities and Perley Health's corporate strengths weighed against the inherent risks.

The Board's assessment of risks should take into account:

- Any risk tolerance levels specifically approved by the Board;
- Perley Health's capacity for risk (including such considerations as the strength of its finances, donor support, reputation and credibility, and the experience and competence of the staff to implement the associated change);
- The spirit and attitudes of the organization and its stakeholders towards risk as well as the corporate values of the organization;
- The validity of the assumptions.

Implementation Timetable and Plan

The Board-approved Strategic Plan needs to be linked to an implementation process. Typically, strategic plans include Management's implementation plan which:

- Establishes a timetable for implementation;
- Defines milestones or descriptions of success for successive years that can be evaluated;
- Assigns accountability for implementation;
- Defines risks more specifically; and
- Establishes the reporting requirements for monitoring by the Board.

2.3.3 Process Characteristics

Undertaking a new Strategic Plan is a significant organizational undertaking. The many processes involved should be characterized by:

- **Big Picture Focus.** Wading through the reams of inevitable detail can obscure the big picture. Participants in the strategic planning process frequently require reminding of the values, vision and mission, as well as the success measurements being sought.

³ See Chapter 7 for a further discussion of Risk.

- **Simplification.** By breaking the situational assessment into major components along thematic or functional areas, the subsequent detailed operational planning can be simplified.
- **Broad Consultation.** Strategic planning provides an opportunity to engage Perley Health's stakeholders. Broad consultation and diverse ideas enhance the quality of assessment in mission development and garnering community support. Perley Health has used formal focus groups to assist in these consultations. (But broad consultations are time consuming; balance is essential to effectiveness.)
- **Open and Participative Process.** As many channels of communication as practicable should be used to increase awareness, understanding and buy-in to the process and to the results. Surveys, focus groups, community consultations, email updates, newsletters, open houses and presentations all may have benefit.

2.3.4 Communicating the Strategic Plan

From a strictly governance point of view, the Strategic Plan provides the Board's strategic direction to Management. However, the Board's role does not stop here. The Board must be prepared to participate in communicating the plan to the stakeholders who need to know Perley Health's strategic direction.

Management should develop a coherent communications plan for getting the message out. The plan should include those aspects of the communications that will require direct Board involvement, the targeted stakeholders, the timelines, and a selection of appropriate communication vehicles (e.g. press conference, summary pamphlets, speaking engagements).

The key point is that the highlights of Perley Health's Strategic Plan and progress in fulfilling its strategic directions need to be effectively communicated, demonstrating its accountability to the community it serves and its stakeholders.

2.3.5 Strategic Reviews and Assessments

Once a Strategic Plan is in place, it is a living document requiring regular reviews and updates. Management should keep the Board up-to-date on the attainment of significant milestones (or challenges) in fulfilling the achievement of the strategic directions or initiatives. Progress reports should include quantitative indicators where available.

Management using the Strategic Planning Working Group should conduct ongoing intelligence gathering and situational analysis to keep the Board apprised of significant changes in the internal or external environment which would influence the validity of the assumptions implicit in the Strategic Plan. This exercise may trigger revisions to the Strategic Plan.

2.3.6 Annual Operating Plan ⁴

The CEO and Management develop annual operating plans and budgets based on the strategic directions contained in the Strategic Plan. These become the focus of work throughout the organization over the next twelve-month period. They will contain estimates of service demand for the year as well as objectives for improvement in key

⁴ See Chapter 4, Financial Stewardship, for a further discussion on the Annual Operating Plan.

areas of corporate activity.

The annual operating plan will be the basis of its yearly budget containing revenues and expenditure forecasts related to planned programs and/or volumes of service. This plan will contain more specific objectives than contained in the Strategic Plan, such as:

- Expected results for each objective;
- The time period during which those results will be sought; and
- Criteria for measuring the achievement of those results.

The annual operating plan, together with service statistics and budget forecasts are presented to the Board for review, amendment and approval.

2.3.7 Review of Strategic Planning Processes

Prior to commencing a new strategic planning cycle, the Strategic Planning Working Group should undertake a review of its strategic planning and management processes. A checklist for this purpose is attached at Appendix B to this Chapter.

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**Appendix A
to Chapter 2 of the Addendum**

Planning Cycle and Related Board and Management Responsibilities

The planning cycle should include as a minimum the following phases:

- Establishing the planning timetable and process;
- Agreeing the strategic framework (*mission, vision and values*);
- Conducting external and internal environmental scans;
- Formulation of strategic directions;
- Risk analysis, including:
 - Defining and testing assumptions;
 - Scenario testing;
 - Sensitivity analysis; and
 - Risk mitigation measures;
- Development of strategies and alternative strategies;
- Establishing key performance indicators, including financial measures;
- Development of the Implementation Plan including specific performance targets;
- Approval and communication of the Strategic Plan;
- Regular progress reviews re implementation of the Plan;
- Annual strategic assessment of the continuing suitability of the Strategic Plan;
- Revision to the Plan, as necessary.

Board Responsibilities

In fulfilling its responsibilities for strategic planning and management, the Board:

- Provides initial approval of the strategic planning process to be followed;
- Participates in workshop style dialogues with staff at key points in the process, especially with respect to the formation of strategic directions;
- Reviews the highlights of findings of the facts and analyses provided by the Strategic Planning Working Group;
- Receives the final draft of the Strategic Plan in sufficient time to meaningfully challenge and recommend changes to the plan;
- Approves the final Strategic Plan;
- Considers and approves the CEO's Implementation Plan for fulfilling the strategic objectives of the Plan;
- Contributes (as necessary) to the communication of the plan to stakeholders;
- Reviews regular progress reports on the fulfillment of the approved strategic directions; and

- Approves changes to the mission, values, vision and strategic directions as necessary.

Management's Responsibilities

The CEO is responsible to the Board for:

- Chairing the Strategic Planning Working Group
- Defining the process to be followed for the strategic planning cycle;
- The conduct of the internal and external environmental scans;
- Providing ongoing Intelligence reporting;
- Keeping the Board apprised of key developments of the Plan's development;
- Making recommendations to the Board regarding strategic direction, resource allocation, and investment priorities;
- Preparing the Strategic Plan, including the more detailed Implementation Plan, for Board approval;
- Communication of the Strategic Plan to stakeholders;
- Preparation of the annual Operating Plan and Budget for Board approval;
- Apprising the Board of progress on the fulfillment of key milestones or events; and
- Conducting an annual Strategic Assessment of the continuing suitability of the current Strategic Plan and report to the Board on the outcome.

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Appendix B
to Chapter 2 of the Addendum

**Strategic Planning and Management
Review Checklist ⁵**

Policy Area	Best Practices
Strategic Planning	
1. What is the organization's vision?	<ul style="list-style-type: none"> • The vision clearly explains what the organization aspires to accomplish. • The Board approves the vision. • The vision is communicated to staff, volunteers and other stakeholders.
2. How does the organization's mission support its vision?	<ul style="list-style-type: none"> • The mission is compatible with the organization's legal purposes and its vision. • The mission clearly identifies the organization's key stakeholders and how the organization will serve them • The Board approves the mission. • The mission is communicated to staff, volunteers and other stakeholders.
3. What are the organization's values?	<ul style="list-style-type: none"> • The organization has a statement of its values. • The organization's strategies are consistent with its values. • The Board approves the values and the code of conduct. • The values and code are communicated to staff, volunteers and other stakeholders.
4. Who are the organization's key stakeholders and what do they expect?	<ul style="list-style-type: none"> • The organization has identified its key stakeholders. • The strategic plan addresses stakeholder needs. • The organization operates in a way that respects stakeholders and seeks to meet their expectations - without letting them override the organization's values. • The organization monitors stakeholder satisfaction on a regular basis.
5. How does the organization get the money to fund its activities and programs?	<ul style="list-style-type: none"> • The organization has stable, well-diversified sources of revenue. • The organization is not overly dependent on discretionary government grants. • The organization is prepared to deal with changes in funding levels from one or more of its sources.

⁵ Adapted from "20 Questions Directors Should Ask About Strategy and Planning", CICA, 2008

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6. How do events in the organization and the world outside affect our ability to achieve the vision and the mission?	<ul style="list-style-type: none"> • The organization considers its internal strengths and weaknesses in developing its strategic plan. • The organization considers its external opportunities and threats in developing its strategic plan.
7. What risks does the organization face?	<ul style="list-style-type: none"> • The organization has identified the major risks that could affect its operations and provides reports on them to the Board. • Management and the Board consider the risks when developing the strategic and operating plans. • The organization has policies and procedures for managing risks. • The Board makes time in its agenda to discuss risk. • The organization takes risks seriously and manages them well.
8. How much risk is appropriate?	<ul style="list-style-type: none"> • The organization's risk tolerance policy provides a balance between too much and too little risk taking. • The risk tolerance policy is consistent with the organization's capacity for taking risk. • The Board approves the risk tolerance policy and reviews it at least annually.
9. How sound are the assumptions behind the strategy?	<ul style="list-style-type: none"> • The strategic plan describes the assumptions on which the plan is based. • The strategic planning process includes identifying and testing strategies using some form of scenario analysis.
10. How will accomplishments be measured?	<ul style="list-style-type: none"> • There are a manageable number of quantitative and qualitative measurements that include the organization's strategic progress. • The measurements are appropriate for monitoring the organization's performance. • The targets are realistic.
11. How will the activities and programs support the vision and the mission?	<ul style="list-style-type: none"> • The strategies use the organization's strengths to take advantage of opportunities and overcome weaknesses and threats. • The strategies are compatible with the organization's values and risk tolerance policy. • The strategic plan links the organization's vision, mission and values to its activities and programs.
12. What is the Board's role in Strategic planning?	<ul style="list-style-type: none"> • The Board's role in Strategic planning includes approval of the strategic plan.

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	<ul style="list-style-type: none"> The Board schedules sufficient time for effective review and discussion before approving the Strategic Plan.
Operational and Capital Planning and Budgeting	
13. How will the organization achieve its objectives?	<ul style="list-style-type: none"> The operating plan provides clear direction to staff and volunteers on how strategies will be linked to their activities in the coming year. The operating plan includes objectives and measurements. The operating plan includes operating budgets. The Board approves the operating plan.
14. How will changes in programs and activities be coordinated?	<ul style="list-style-type: none"> The plans of staff departments and volunteer committees are coordinated. The Board considers the need for coordination in its review and approval of the operating plan.
15. What is the budget philosophy?	<ul style="list-style-type: none"> The budget philosophy is compatible with the organization's risk tolerance policy (e.g. break-even, surplus or deficit?). The Board recognizes its fiduciary responsibility by approving a budget that is compatible with the organization's budget philosophy (e.g. conservative or aspirational)
16. What does the Board need to know before approving the operating plan and budget?	<ul style="list-style-type: none"> The budget report presented to the Board provides comparative information. The budget includes a cash flow summary. The budget includes plans for investing and borrowing. The assumptions and calculations behind the budget items are documented. Costs and revenues are calendarized.
17. How much will be needed for buildings, furniture, vehicles and equipment?	<ul style="list-style-type: none"> The organization has a capital plan and budget. The plan describes the costs and benefits of acquiring capital assets. The plan includes considerations of alternatives to purchasing and building. The plan includes the sources of funding for capital projects. The budget includes a cash flow summary.
Monitoring and Learning	
18. How does the Board monitor progress towards implementing the strategy?	<ul style="list-style-type: none"> The Board receives regular reports that compare actual performance results to targets.

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	<ul style="list-style-type: none">• When actual performance varies from the target, the Board is provided with explanations and any proposed responses.
19. How does the Board monitor budgeted and actual results?	<ul style="list-style-type: none">• The Board receives regular reports that compare actual year-to-date and outlook financial results to the budget and the previous year.• When actual and outlook amounts vary from budget, the Board is provided with an explanation and any proposed responses.
20. What did we learn from our experience?	<ul style="list-style-type: none">• The Board, staff and volunteers take time to learn from experience.• The Board reviews the strategy at least once a year - more often if necessary.• Strategies are revised on the basis of what has been learned.

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Chapter 3

QUALITY

This chapter looks at quality from different perspectives, including the Board's responsibilities for maintaining organizational quality and continuing improvement. It provides guidance on quality management, performance monitoring and safety management.

3.1 General

Quality begins at the top. The Board and the CEO set the tone that determines the corporate culture of Perley Health. Does that corporate culture promote the pursuit of excellence in every aspect of its activities, around the clock, year in and year out? Is quality part of every employee's and every volunteer's personal commitment to Perley Health?

Perley Health's *bottom line* for quality is focused on the **quality of life** of its residents and clients. Its motto is: *"Together, we improve the well-being of the people we serve."* In other words, quality is everybody's business.

In the day-to-day operation of Perley Health it is the staff that is responsible for the quality of the programs; however, at the end of the day it is the Board that is ultimately accountable for the quality of those operations. Thus, Perley Health has a commitment to the delivery of health services that meet or exceed all applicable standards and regulations governing the provision of health care for our residents and other clients. It will actively pursue quality improvements across the entire organization.

"Quality" is a relative term that is determined by comparing actual practices or structures with a set of requirements or expectations. Quality defines how well the actual practices or structures comply with the requirements.

Not only is quality relative; it is also a subjective term, dependent on the eye of the beholder. For example, from the perspectives of:

- **Residents:** Quality has to do with the "well-being" ¹ of the residents;
- **Other clients:** Quality has to do with their satisfaction with services provided;
- **Regulatory authorities:** Quality has to do with compliance with governing standards and regulations;
- **Funders:** Quality has to do with strong fiscal management;
- **Senior Management:** Quality has to do with meeting operational standards within resource allocations;
- **Unions:** Quality has to do with ensuring contented members;

¹ Here "well-being" means that the residents "live with dignity and security, safety and comfort, and have their physical, psychological, social, spiritual and cultural needs adequately met," as required by the LTC Homes Act.

- **Corporate members:** Quality has to do with preserving the viability of the institution; and
- **Board of Directors:** Quality has to do with maintaining Perley Health's reputation with all its diverse stakeholders.

The Board of Directors must seek to satisfy all such perspectives.

Sometimes we know formally what the various perspectives are. For example, in 2008 the Ministry of Health and Long-Term Care identified five themes defining a common vision for quality in nursing homes in the province.² These are:

- i. Create an environment that promotes quality of life for residents;
- ii. Make “home” a central part of the nursing home experience for residents and their families;
- iii. Build a community that supports quality in LTC by leveraging partnerships and creating a positive image of LTC homes for residents and staff;
- iv. Create a culture of quality care and improvement; and
- v. Develop leadership, and align incentives and resources to support the quality vision in LTC.

3.2 Organizational Quality

Attaining “quality” from one perspective may not be indicative of the organization's overall health. Satisfying the quality equation from an organizational perspective requires a systematic approach – a quality management system. In other words, quality will be a reflection of the effectiveness of the organizational values and ethics, its structure, procedures and processes, as well as the resources allocated.

3.2.1 Ethics and Values

Inevitably, quality is predicated upon the ethics and values of Perley Health, which are provided in the Code of Ethical Conduct, found in Part IV of the Board Governance Guide.

3.2.2 Board's Roles in Quality

This Chapter attempts to define the requirements for the governance necessary to ensure “quality” from all perspectives at Perley Health. To that end:

- The Board regularly reviews Perley Health's services to ensure that they are consistent with the purpose of the organization and that its programs are effective and relevant to community needs.
- The Board is responsible for establishing a process and a schedule for monitoring and assessing performance in areas of Board responsibility including:
 - Fulfillment of the strategic directions in a manner consistent with the mission, vision and values;

² “What We Heard: Long Term Care Quality Consultation 2008: A Common Vision of Quality in Ontario Long Term Care Homes”.

- Oversight of Management performance;
 - Quality of resident and client care;
 - Financial conditions;
 - External relations; and
 - The Board's own effectiveness.
- The Board ensures that Management has identified appropriate measures of performance.
- The Board monitors Perley Health's operational and Board performance against Board approved performance standards and indicators.
- The Board ensures that Management has plans in place to address variances from agreed performance standards and indicators, and the Board oversees implementation of remediation plans.

3.3 Quality Management

Quality Management includes the activities and functions involved in the determination of quality policy and its implementation in order to sustain the desired level of excellence. There are three generally accepted elements of Quality Management:

- **Quality Assurance** is a set of activities intended to establish confidence that the quality requirements will be met.
- **Quality Control** is a set of activities intended to ensure that the quality requirements are actually being met.
- **Quality Improvement** refers to anything that enhances the organization's ability to meet its quality requirements.

3.4 Quality Improvement

Quality improvement is a systematic approach for making changes to lead to better patient/resident outcomes, stronger system performance and enhanced professional development.

Quality improvement goes beyond product or service quality to involve everyone in the organization. It encompasses every function: clinical service delivery, strategic planning, administration, personnel development, communications, etc. It requires:

- The commitment and direct involvement of senior management in setting quality goals and policies, allocation of resources, and performance monitoring;
- Fundamental changes in basic beliefs and practices, making quality everyone's business;
- Building quality into all processes and practices from the outset;
- Understanding and adapting to the changing needs of residents and clients, all human resources, and external stakeholders;
- Leadership so that everyone performs in the best possible manner to improve quality and productivity;
- Eliminating barriers between people and departments so that they work together to achieve common objectives;
- Providing appropriate training and education; and
- Defining and monitoring meaningful performance measures.

3.5 Quality Improvement Plan (QIP)

As part of its quest for continuous improvement, the Board (through the Quality of Life and Safety Committee) works with the CEO to develop an integrated quality improvement plan. A quality improvement plan (QIP) is a documented set of quality commitments that the organization makes on an annual basis to improve quality through focused targets and actions. Such plans incorporate risk management; performance measurement, including monitoring of strategic goals and objectives; client safety; and quality improvement.

The QIP follows a standard template issued by the Ministry of Long-Term Care and is based on several quality dimensions, each with specific improvement targets or initiatives. An example of possible quality dimensions and objectives follows; performance measures or indicators would be specified for each item:

Quality Dimension	Objective
Safety	Reduce infection rates.
	Reduce incidence of pressure injuries.
	Reduce falls.
	Reduce use of physical restraints.
	Strengthen Culture of Safety.
	Eliminate risk of resident abuse.
	Reduce Responsive Behaviours.
Resident-/Client-centred services	Enhance resident social life.
	Grow the Resident and Family Advisory Program.
	Strengthen resident and family relations process.
	Improve resident and client satisfaction.
Enabling	Strengthen Quality Improvement Capacity.
Effective	Reduce transfers to acute care.
	Reduce Pain.

3.6 Quality of Life and Safety Committee

Just as health care organizations require audit committees to oversee financial integrity, they require a quality committee to oversee the quality of services provided. The Quality of Life and Safety Committee assists the Board in overseeing and ensuring the quality of clinical care, quality of life of residents as well as safety of residents, clients, staff, volunteers and invitees at Perley Health. The Terms of Reference for this Committee are in Appendix A to Chapter 3 of Part II of the Board Governance Guide.

High performing health care boards tend to share the following characteristics regarding quality performance:

- They have a Board Committee dedicated to quality oversight;
- They include quality as an important agenda item at most Board meetings; and
- They spend a significant proportion of Board time on quality issues.

The Quality of Life and Safety Committee assists the Board in this regard. In general terms, its responsibilities include:

- Working with management to develop and implement a quality improvement plan that is consistent with the Board-approved strategic objectives;
- Reviewing and recommending quality/safety-related policies and standards;
- Approving and monitoring key performance indicators compared to organizational goals and health sector benchmarks;
- Reporting on quality and safety performance to the Board;
- Reviewing adverse events and root cause analyses and, if appropriate, recommending corrective action;
- Monitoring summary reports of clinical care and resident safety activities;
- Reviewing management's action plans with respect to negative variances and serious errors;
- Overseeing compliance with quality- and safety-related accreditation standards;
- Making recommendations to the Board on all matters related to the quality of care, resident and client safety, and organizational culture.

A competency-based approach to the selection of members applies as much as is feasible.

The Chief Medical Officer sits on the Committee to provide the necessary clinical expertise to advise the Committee. Where the necessary expertise within the Board is missing, Adjunct Advisor(s) may be appointed to this Committee.

3.7 Performance Monitoring

A significant part of the work of the Quality of Life and Safety Committee is effective performance monitoring. (Guidelines for performance monitoring are provided in Chapter 8 of this Addendum.) Not surprisingly, many of the performance indicators pertain directly to quality of life and safety issues.

Valuable sources of information for monitoring the effectiveness of Perley Health's quality management from the perspective of the residents and clients include:

- An instrument called Resident Assessment Instrument – Minimum Data Set (RAI-MDS) for trends monitoring and benchmarking;
- Inspection and Accreditation Surveys (MLTC and Accreditation Canada);
- Satisfaction surveys for residents, clients, families, volunteers and staff;
- Reports from Stakeholder Committees (Family and Friends Council, Resident Councils, etc.); and
- Statements of claim and complaints and their disposition.

The well-being of Perley Health's residents and clients is directly linked to several other dimensions essential to true total quality management, including, for example:

- Financial viability and sustainability;
- Effective strategic planning;
- Solid reputation and constructive external relations; and

- Sound management and Board governance.

3.8 Safety in Health Care

A growing concern in caring for older adults is having due regard to safety. Accreditation Canada's Governance Standards include a section requiring the Board to foster and support a culture of safety throughout the organization.

Since 2005 Accreditation Canada has been surveying evidence-based practices that mitigate risk and contribute to improving the quality of safety in health services. Their Required Organizational Practices (ROPs) for safety are organized according to the following areas: safety culture, communication, medication use, work life/workforce, infection control, and risk management.

Establishing an effective safety culture begins at the top of the organization with quality governance. A strong relationship exists between an organization's governance functioning and client safety. Organizations with high-performing boards have been found to have significantly higher rates of compliance with ROPs. Similar relationships have been identified between the quality of the work life of the staff and client safety. Thus, it is important for Perley Health to carefully choose its organizational priorities as to how they may impact on safety culture and work life.

3.8.1 Enhancing Safety in Health Care

The Board has approved a policy on the Culture of Safety for Perley Health. Central to this policy is the recognition that the safety of residents, tenants, clients and their families, and those who provide care and services to them (employees and volunteers) is paramount. This policy can be found in Part IV of the Board Governance Guide. Translating this organizational commitment into accountability in action can be a challenge.

Enhancing system safety can be achieved in healthcare by focusing on particular organizational characteristics, including:

- Strong roles, activities, and contributions of governing bodies and senior leaders to establish a common shared vision and culture for safety;
- Consistent and effective use of evidence-based, standardized care and practices;
- Ongoing measurement, monitoring, and use of process and outcome data for safety improvements, including benchmarking, both internally over time and externally, to share important information with peer organizations; and
- A focus on enhancing reliability, and analyzing actual and potential events to develop systems that anticipate and mitigate safety risks.

3.8.2 Safety Management System

Given the complexity of issues with safety implications, a systematic approach to overseeing quality in safety management is recommended. A Safety Management Review Checklist is provided at Appendix A to this Chapter to assist in assessing Perley Health's capabilities for meeting safety expectations.

3.8.3 Safety Health of the Organization

The term safety health reflects the systemic measures put in place by the organization to defend against the unknown and is a reflection of the organization's ability to adapt to the unknown. In effect, it reflects the organization's safety culture. Indicators of an organization with good safety health include such considerations as:

- Proactive corporate safety culture, including a commitment to just culture;
- Investment in human resources in such areas as non-mandatory training and workplace mental fitness;
- Formal processes for maintaining safety databases, incident reporting and investigation, safety communications, etc.;
- Operation of an integrated safety management system (i.e. an appropriate corporate approach to safety, organizational tools and safety oversight);
- Risk-based resource allocation;
- Strong internal two-way communication in terms of openness, feedback, reporting culture and dissemination of lessons learned; and
- Safety education and awareness in terms of data exchange and safety promotion.

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**Appendix A
to Chapter 3 to the Addendum**

Safety Management Review Checklist

Audit Area	Status of Safety Management
Organization and Planning	
<ul style="list-style-type: none"> Managers have been assigned specific responsibilities for organization-wide safety management. Terms of reference for all managers identify specific safety responsibilities. A designated group of experienced operational staff regularly meets with senior management to review safety issues. This group has a realistic strategy and implementation plan for safety improvement. 	
Commitment to Safety	
<ul style="list-style-type: none"> The CEO is personally committed to improving all aspects of organizational safety (<i>for residents and clients, staff and volunteers, etc.</i>) The CEO and the Board have approved the Perley Health's safety policy. Senior management has approved the quality improvement plan, which includes a focus on safety. Management promotes a positive safety culture and demonstrates a trusting (non-punitive) approach to safety violations. Sufficient resources are allocated for critical safety requirements. Safety performance is regularly evaluated. 	
Hazard Identification	
<ul style="list-style-type: none"> An effective safety occurrence-reporting program is functioning for staff, volunteers, families and friends to report safety incidents, near misses, and unsafe situations or conditions. Training and promotional information is available to support the occurrence-reporting program. All identified hazard data are systematically recorded, stored and analyzed. 	
Safety Analysis Capability	
<ul style="list-style-type: none"> Procedures and resources are in effect for competent analysis of safety issues. Hazard information and quality performance data are routinely monitored (trend analysis, etc.) Safety analysis is routinely used to identify and evaluate systemic safety risks. 	

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Risk Management	
<ul style="list-style-type: none"> • Management analyzes all identified safety hazards and, if warranted, recommends viable risk control measures. • Management takes specific action to reduce, eliminate or avoid the risks. • Staff is apprised safety actions taken. 	
Safety Promotion and Training	
<ul style="list-style-type: none"> • All personnel receive safety training and participate in specific ongoing training for safety management. • Appropriate means are used for effectively disseminating safety information and promoting safety. • Staff understands that safety management has nothing to do with attributing blame. 	
Safety Oversight and Performance Evaluation	
<ul style="list-style-type: none"> • Safety performance indicators have been agreed and realistic safety targets set. • The Performance Monitoring system includes reporting on safety issues. • Regular safety audits are conducted for all operational areas (including activities of contracting agencies). • The safety program's effectiveness is regularly evaluated to ensure that desired safety outcomes are being achieved. 	

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Chapter 4

FINANCIAL STEWARDSHIP

This chapter provides a primer on the Board's role with respect to financial statements, internal controls and the audit process, and outlines basic building blocks for effective financial stewardship.

4.1 General

Sound financial stewardship is fundamental to the fulfilment of the Board's fiduciary responsibilities. Although the Board recruits some Board members with professional qualifications and experience in financial accounting and auditing, regular Board members often are relatively unfamiliar with the measures necessary for financial sustainability and accountability. This chapter addresses some of the financial fundamentals and a framework for approaching financial stewardship.

4.1.1 Financial Stewardship ¹

The Board reviews and approves the annual operating and capital budgets; ensures that adequate financial resources are secured; ensures the development of financial management and inventory control systems to properly record financial transactions and control assets; monitors efficient use of resources; and, ensures the establishment of proper financial controls and policies.

4.1.2 Standards

Accreditation Canada assesses organizations against standards developed by Health Standards Organization (HSO), International Standards Organization (ISO) and others. These include standards for financial planning and control, as well as for the allocation of resources. Management utilizes the Accreditation Canada process and assessment to ensure that its policies, process and guidelines reflect best practices.

The Accreditation Canada standards can be found in Appendix A to Chapter 1 of this Addendum; standards related to financial stewardship are found under section 9 of that Appendix.

4.1.3 Audit and Risk Management Committee

To assist the Board in achieving its financial stewardship responsibilities, it is supported by the Audit and Risk Management Committee. The Terms of Reference for that Committee are reproduced in Appendix A to Chapter 3 of Part II of the Board Governance Guide.

¹ From "Governing for Results: A Director's Guide to Good Governance", Mel D. Gill, 2005

4.2 Fundamentals

To assist new Board members in understanding effective financial stewardship, a primer on terminology follows.

4.2.1 Assets

Assets comprise the physical plant and equipment, cash reserves and Perley Health's reputation. The Board collectively is responsible for ensuring that all assets are prudently managed and safeguarded. All Board members and Committees share in this responsibility. In particular, failure to renew and update plant and equipment, depletion of cash reserves, overly optimistic plans and projects, or an erosion of public goodwill will compromise Perley Health's long-term viability. While trust and respect are essential to the Board-management relationship in fulfilling these responsibilities, blind trust in the CEO's budget and reporting practices may damage the Board's credibility and the sustainability of Perley Health.

4.2.2 Liabilities

A liability is an obligation of Perley Health arising from past transactions or events, the settlement of which is expected to result in an outflow of the Corporation's assets yielding economic benefit to the holder of the obligation. A liability may take many forms; for example:

- **Borrowing** from persons or banks to improve the business or performance of Perley Health for either the short or the long term;
- **Contractual obligations** to provide a service or an asset over a specified period or at a predetermined date (such as negotiated pay and benefits agreements, the obligations of the LTC Home Service Accountability Agreement with the LHIN, etc.);
- **Other obligations** resulting in a duty or responsibility to comply, with little or no discretion to avoid settlement (such as fines or loss of a lawsuit.); or
- **Outstanding obligations** from past transactions or events that still obligate the Corporation to comply.

Liabilities need not be legally enforceable, but can be based on equitable or constructive obligations. An **equitable obligation** is a duty based on ethical or moral considerations – such as Perley Health's practice of providing pay increases for non-unionized employees comparable to those of unionized employees. A **constructive obligation** is an obligation that is implied by a set of circumstances in a particular situation, as opposed to a contractually-based obligation.

4.2.3 Unfunded Liabilities

Unfunded or contingent liabilities can lead to bankruptcy. Unfunded liabilities may occur when contractual obligations exceed the organization's revenue generating capacity. Commitment to major projects with inadequate project funding, the cumulative effect of sick leave or unplanned buyouts for laid off employees, etc. with insufficient cash reserves or contingency funding, all may lead to such a cash crunch - especially if a

major cut in Perley Health's core funding occurred in the same time frame.

4.2.4 Financial Statements

Three different financial statements are fundamental to the Board's financial stewardship of Perley Health. Each is prepared by management, reviewed and recommended by the Board and is ultimately approved by the members of the Corporation at the Annual Meeting. The three financial statements are:

- **Statement of Financial Position** reflects the organization's overall financial situation at a point in time. It portrays the organization's assets balanced against its liabilities and net worth. **Assets** include all the things of value owned by Perley Health. **Liabilities** represent the organization's obligations to creditors; i.e. what it owes. (Contributions that have not yet been amortized are considered to be owing.) **Net assets** are the difference between what Perley Health owns and what it owes; i.e. it represents Perley Health's own investment in the Corporation, its "worth" and may be positive or negative.
- **Statement of Revenues and Expenditures** (over a period of time, usually a year) summarizes Perley Health's revenues and expenditures incurred during the period. **Revenues** include the actual income received plus any contributions that have been amortized during the period. **Expenditures** include all payments for goods and services during the year, plus that portion of long-term assets recognized as expenses during the year (such as depreciation on the physical plant).
- **Statement of Cash Flow.** Essentially, the cash flow statement is concerned with the flow of cash in and cash out of Perley Health. It is an indication of the organization's solvency. It shows how changes in Perley Health's accounts and income as reflected in the Statement of Financial Position affect the Corporation's actual cash and cash equivalents position over a defined period of time. Starting with the difference between revenues and expenses, this statement adds back those expenditures that did not require cash during the year (such as depreciation) and subtracts those revenues that did not involve cash during the year (such as those contributions that were amortized during the year.) The net result represents the cash and cash equivalents available to Perley Health at the end of the year. As an analytical tool, it is useful in determining the short-term viability of the organization, particularly its ability to pay its bills.

Annual Operating Budget

The annual operating budget (revenues vs. expenditures) and operational plans that are approved by the Board form the Board's basis for monitoring current year financial performance. These are always reviewed in the context of recent history and future projections. The Board receives and reviews regular reports at least quarterly from management on year-to-date actual revenues and expenditures with projections for the balance of the fiscal year. In this way, the Board avoids surprises, keeping the organization on track for the budget plan and anticipating any budget shortfalls or surpluses. In this monitoring function, the Board satisfies itself that management's reports would stand up to rigorous outside scrutiny and professional audit.

Capital and Investment Forecast

In addition to the Annual Operating Budget, management prepares annually a capital and investment budget for review by the Board. The capital budget addresses longer-term requirements such as major maintenance and upgrade of plant and facilities, equipment replacement, new capital projects, etc. The capital and investment forecast examines cash flows over a ten-year horizon.

Internal controls are the systems of policies and procedures that protect the assets of Perley Health, create reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. These systems are not only related to accounting and reporting but also relate to Perley Health's communication processes, internally and externally, and include procedures for:

- Handling funds received and expended by the organization;
- Preparing appropriate and timely financial reporting to Board members and officers;
- Conducting the annual audit of the organization's financial statements;
- Evaluating staff and programs;
- Maintaining inventory records of real and personal property and their whereabouts; and
- Implementing personnel and conflicts of interest policies.

The Board must ensure that management has established and implemented effective internal controls for the maintenance of the continued financial viability of the Corporation.

4.3 Framework for Financial Stewardship

Effective financial stewardship at Perley Health is built upon six basic building blocks:

1. Organization
2. Planning
3. Policies, Process and Guidelines
4. Performance Monitoring
5. External Financial Audit
6. Accountability

4.3.1 Organization

To some extent, how Perley Health structures its human resources and responsibilities is based on the legislative and regulatory requirements as well as the By-Laws. However, the devil is in such details as:

- **Authorities.** These are clearly defined in terms of signing authorities and spending limits, and formal reporting lines are established and respected. The terms of reference for the Chairman and Officers of the Corporation as well as the CEO are also clearly defined. The CEO is accountable to the Board for the management of day-to-day financial operations. See Appendix A to this Chapter for a description of the CEO's responsibilities with respect to financial stewardship.

- **Personnel.** Management has sufficient staff with appropriate credentials and work experience for overseeing the day-to day financial management of the Corporation.
- **Audit Committee.** An Audit and Risk Management Committee of the Board oversees the effective utilization and safeguarding of the Perley Health's assets in the fulfilment of its mission and the sustainability of its financial health.
- **Financial Competence of Directors.** A sufficient number of Board members with professional financial credentials and significant financial work experience are recruited to provide financial leadership for the Board. In addition, the Board ensures that Board members have adequate training and orientation in the fundamentals of financial management to contribute to the challenge and review processes for all Board deliberations of financial matters. The Board will seek outside professional financial counsel when deemed necessary.

4.3.2 Planning

Effective financial stewardship begins with sound financial planning, meaning:

- **Strategic Management.** All financial planning is supportive of Perley Health's values, vision, mission and strategic objectives. For guidance on strategic management, see Chapter 2 of this Addendum.
- **Securing Financial Resources.** The Board is directly responsible for ensuring that adequate revenues are secured for the effective operation of Perley Health and for its long-term sustainability. Normally, the Board delegates authority to management for the negotiation of funding formulae with government funders and setting the operational priorities for revenues from the Perley Health Foundation, as well as for securing and managing various revenue enhancement sources. However, as with many other governance matters, the CEO and Board work in full partnership to ensure that the necessary revenues are secured.

Board vigilance is required to maintain organizational credibility, monitor trends, anticipate problems and manage risks. The Board reserves the authority to approve all new funding initiatives (e.g. project grants, fees for service, and new funding streams).

- **Operating Plan.** Based on the strategic directions contained in the Strategic Plan, management prepares an annual Operating Plan that contains more specific objectives than are contained in the Strategic Plan. The Board challenges and approves the Operating Plan. These objectives become the focus of work throughout Perley Health over the next twelve-month period. They will contain estimates of service demand for the year as well as objectives for improvement in key areas of corporate activity.

The operating plan will contain such details as:

- Expected results for each objective;
- The time period during which those results will be sought; and,
- Criteria for measuring the achievement of those results.

The annual operating plan, together with service statistics and budget forecasts are presented to the Board for review, amendment and approval.

- **Operating Budget.** The annual operating plan provides the basis of Perley Health's annual budget containing revenues and expenditure forecasts related to planned programs and/or volumes of service
- **Capital Budget.** In addition to the Operating Budget, management prepares an annual capital budget for approval by the Board. The capital budget is extracted from the Capital and Investment Forecast (referred to in section 4.2.5.2). Capital budgeting requires consideration of such aspects as net present value and equivalent annuity values for paying off major initiatives, return on investment, etc.
- **Asset Management and Capital Planning.** There is a requirement for comprehensive capital planning at Perley Health (PH), both to ensure funding exists to maintain the current infrastructure and assets, and that sufficient capital resources are available to fund future infrastructure and capabilities as prioritized in the institution's strategic plans. Responsible capital planning, with a particular focus on the sustainability of the institution's operating assets and capabilities, is an important focus of the PH board and a key feature of the institution's business ethos and shared values.

There are three funding allocation demands in the PH asset maintenance model:

1. Funding allocations to current asset life-cycle maintenance requirements as allocated in the annual operating budget.
2. Funding allocations to significant asset replacements and disposal at their planned end-of- life decommissioning.
3. Funding allocations to future infrastructure and capabilities as prioritized in the institution's strategic plans.

Planning Principles:

Access to essential information

PH will maintain an inventory of major equipment and assets including an annual review of condition and maintenance priorities. This inventory will be maintained by the CFO and will typically include two categories of assets; those subject to an annual assessment of condition and routine maintenance priorities, and those of a significant nature which require a more sophisticated external condition and maintenance assessment on a 5-year (or even longer) cycle. These inventories are utilized to identify life-cycle maintenance funding obligations to be included in the operating plan.

On a 5-year cycle PH will engage appropriate engineering experts to conduct an external Building Condition Assessment of its significant infrastructure assets. This report is utilized in the 10-year Capital and Investment Forecast to allocate

resources to significant life-cycle maintenance and major asset replacement expenditures in the planning horizon.

Future infrastructure and capabilities expenditure allocations are included in the 10-year Capital and Investment Forecast when those initiatives are approved by the Board.

When required, additional condition assessments of critical assets on a non-scheduled basis may be initiated because of changes in dynamic environmental factors, (e.g. regulatory changes, technological changes, asset condition changes, or capability changes).

Maintaining Situational Awareness

Annually, management will publish its 10-year Capital and Investment forecast which highlights investments in the acquisition and maintenance of capital assets and their assessed impacts on anticipated cash flows.

Annually, management will update its inventory of major capital assets and brief the Board's Audit and Risk Management (ARM) committee on significant changes to the inventory or its condition assessments.

The findings of the external Building Condition Assessment will be briefed to the Board after its receipt, and significant changes to the Condition Assessment will be periodically briefed to the ARM committee as the need arises.

Measuring Performance

Annually, Management will evaluate its performance against its 10-year Capital and Investment forecast and report the results to the Board.

Annually the Board will assess cash flow forecasts and operating results and offer Management additional guidance with respect to prioritization of significant asset replacements and new asset acquisition expenditures as appropriate.

Protection of Assets and Managing Risk

Management will annually review the institution's insurance policies to ensure acquired assets are appropriately covered.

Management will annually include an assessment of significant Capital Asset risks in its risk inventory and indicate any plans for mitigation.

When examining asset replacement options, management will include a "lease-versus-own" analysis for circumstances where there is a potential of technical obsolescence or an assignment of significant operating risks that may result from a planned asset acquisition.

A Checklist for Comprehensive Capital Planning is found at Appendix B provides further guidance to the Audit and Risk Management Committee and the Board in its oversight role.

4.3.3 Policies, Process and Guidelines

Policies, Process and Guidelines provide the lubricant to keep the financial machinery running smoothly. For example:

- **Administrative.** All financial administration policies, accounting systems, internal financial standards, management authorities, controls and practices are established and maintained in accordance with legal and regulatory requirements. Furthermore, they are well documented and are diligently applied, reviewed and updated as necessary to ensure effective financial operations.
- **Internal Controls.** A primary responsibility of Directors and Officers is to ensure that Perley Health is accountable for its programs and finances to its government regulators, its residents and clients, staff, corporate members, donors, and the public. Accountability requires that Perley Health comply with all applicable laws and ethical standards; adhere to the organization's mission; create and adhere to conflict of interest, ethics, personnel and accounting policies; protect the rights of members; and prepare and file its annual financial report to the appropriate regulatory authorities and make the report available to all members of the Board and any member of the public who requests it. The development and maintenance of the Perley Health's internal controls help to fulfill this accountability; an example is BOARD-2020-02, Procurement Approval Authority.
- **Contracting.** Perley Health has defined procedures for approving contracts with consultants and suppliers, including securing competitive bids. Management has defined spending limits and contractors must be qualified and eligible to bid and be free from conflict of interest, etc. All contracts must be capable of withstanding outside scrutiny. The Board will approve contracts of a defined size.
- **Investment and Borrowing.** The Board ensures that Perley Health has a prudent investment policy (BOARD-2016-01, Cash Management and Investment Policy Statement (*The Ted Gordon Cash Management and Investment Policy Statement*)) in effect taking account of the financial capacity of the organization. The Board also establishes the terms and conditions for any borrowing on the credit of the Corporation (see article 16 of the By-Laws). The Board annually reviews the terms of its short- and long-term debt to assess liabilities and potential risks.
- **Insurance.** As part of its risk management program, the Board annually reviews the terms and adequacy of insurance coverage for Perley Health, including indemnification for Directors (see article 10 the By-Laws).

4.3.4 Performance Monitoring

Performance Monitoring is an essential element of financial stewardship and risk management. Financial indicators such as surplus/deficit, profit/loss, etc., facilitate the analysis of trends, the setting of realistic financial objectives, etc. Meaningful performance indicators and realistic financial benchmarks and targets are applied for measuring the efficient use of Perley Health's financial resources.

- **Reporting.** The Board is regularly provided adequate information to assess the financial performance of the Corporation and the integrity of its internal reporting and control systems. It periodically reviews financial statements (actual revenues and expenditures) against budget, assesses trends and identifies adjustments deemed necessary for exceptional expenditures.
- **Risk Management.** Perley Health follows a coherent framework of policies and processes for managing risks. For guidance on the Perley Health's enterprise risk management, see Chapter 7 of this Addendum.

4.3.5 External Financial Audit

As required by law and by Perley Health's By-Laws, the Corporation selects an external auditor to conduct an annual financial audit for approval by the members of the Corporation. The audit involves an examination and evaluation of policies, procedures, and systems to ensure the reliability and integrity of information; compliance with policies, plans, laws, and regulations; the safeguarding of assets; and the economical and efficient use of resources. The auditing activity is broadly defined as a process to provide reasonable assurance of the achievement of the following objectives.

- i. Effectiveness and efficiency of financial operations;
- ii. Reliability of financial reporting; and
- iii. Compliance with applicable laws and regulations.

Auditing may be conducted internally or externally. Perley Health at present does not have a system in place for conducting internal audits. Rather, an external audit is conducted annually and is focused on an examination of the statement of financial position as prepared by management at year-end. The auditors render an opinion based on their examination of the statements of revenues and expenditures, changes in net assets and cash flows. Although the auditors may bring to the Board's attention particular issues regarding internal controls, they do not provide an opinion on the adequacy of these controls.

The Board determines the terms of reference for and the performance of the external auditors, reviews the audit results, ensures that the financial statements are fairly presented in all material aspects in accordance with generally accepted accounting principles, meets with the auditors independently from the CEO and considers the auditors' management letter, and directs necessary follow-up actions with respect to the auditors' findings.

The Board is responsible for ensuring

- that Perley Health's accounting practices conform to 'Generally Accepted Accounting Principles (GAAP)';
- that professional audits are conducted at least annually; and
- that problems identified in previous audits have been corrected (or that there are sound financial or operating arguments for not implementing a particular recommendations).

4.3.6 Accountability

Maintaining the integrity of Perley Health, thereby ensuring its continued viability, requires strict financial accountability. Some aspects of this public accountability derive from legal requirements; others from a corporate culture of openness.

- **Reporting.** Management provides the Board with accurate, comprehensive, and timely information. All financial, organizational, and program reports shall be complete and accurate in all material respects.

Perley Health promotes a culture of openness and duty whereby employees or volunteers feel free to report any evidence of fraud or financial impropriety to the Board or the Audit and Risk Management Committee without fear of sanction of any form.

- **Public Disclosure.** Little inspires confidence in, and willingness to work together with, Perley Health more than openness in the disclosure of information that need not be protected (even if it is unfavourable information). Therefore, basic operations and financial data, including audited financial statements are posted on the Perley Health website. In addition, the financial statement as presented by the external auditors is formally presented at the Annual Meeting of the Corporation. Further, public disclosure of information is supported by a policy on Disclosure of Information that is found in Volume IV of this manual.

4.4 Review of Financial Stewardship

The Review Checklist for Financial Stewardship at Appendix C provides further guidance for the Audit and Risk Management Committee and the Board in its oversight role for the financial stewardship of the Corporation.

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**Appendix A
to Chapter 4 of the Addendum**

CEO's Responsibilities re Financial Stewardship ²

1. Oversee the preparation of the annual budget for consideration by the Corporation's Board.
2. Oversee the management of the operation of the Corporation's programs within the approved budget, subject to variance in demand and exceptional circumstances.
3. Ensure that periodic expenditure forecasts and financial reports are provided to the Board.
4. Ensure the development of systems for monitoring and controlling expenditures within approved budget levels.
5. Secure, with the assistance of the Board, the resources necessary to implement and maintain the Corporation's programs.
6. Ensure that periodic reports as required are provided to funding authorities.

² From "*Governing for Results*", Mel D. Gill, 2005.

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Checklist for Comprehensive Capital Planning

Goals and Priorities

1. Ensure funding exists to maintain the current infrastructure and assets
2. Ensure sufficient capital resources to fund future infrastructure and capabilities as prioritized in the institution's strategic plans
3. Ensure the sustainability of the institution's operating assets and capabilities

The following order-of-precedence criteria are generally used in allocating available funds

- A. funding allocations to the current year for existing assets and capabilities (maintenance requirements)
- B. funding allocations, both current year and future years, to replacement or refurbishment of existing assets and capabilities
- C. funding allocations to future infrastructure and capabilities as prioritized by the institution's long-term goals

Supporting Work Required (Management Team)

1. An inventory of major capital assets updated annually
2. A Building Condition Assessment every 5 years (with exceptions available via Board approval)
3. A cybersecurity and technology review every 3 years
4. Assessment of significant capital asset risk annually, and when identified a risk mitigation approach
5. Asset replacement requires a "lease-versus-own" analysis (ad hoc)
6. Asset acquisition requires a "lease-versus-own" analysis (ad hoc)

Reporting (Updates to the ARM Cttee of the Board)

1. Capital and Investment forecast (annually)
 - 1.1. highlights investments in the acquisition and maintenance of capital assets
 - 1.2. assessed impacts on anticipated cash flows.
 - 1.3. Performance against previous year
2. Major Capital assets
 - 2.1. Update significant changes to assets
3. Building Condition Assessment
 - 3.1. findings upon publication (every 5 years)
 - 3.2. significant changes (periodically)
4. Insurance (annually)
 - 4.1. new assets are added

Review Checklist for Financial Stewardship ³

- 1. Internal Controls:** Does Perley Health have procedures for:
 - a. Handling funds received and expended?
 - b. Preparing appropriate and timely financial reporting to Board members and officers?
 - c. Conducting the annual audit of the Corporation's financial statements?
 - d. Evaluating staff and programs?
 - e. Maintaining inventory records of real and personal property and their whereabouts? and
 - f. Implementing personnel and conflicts of interest policies?

- 2. Implementation and Monitoring of Internal Financial Controls:** Does Perley Health have and implement agreed procedures for:
 - a. Monitoring Assets including:
 - i. Preparing an annual budget and periodic reports?
 - ii. Signing and recording cheques?
 - iii. Receiving, recording, and securing all income, grants, contributions cash, and any other receipts?
 - iv. Requisitioning, authorizing, verifying, recording and monitoring all expenditures?
 - v. Accessing, inputting and changing electronic data maintained by Perley Health, and creating and maintaining an effective, off-site records back up system?
 - vi. Providing for regular oversight by the Audit and Risk Committee?
 - vii. Reporting any allegations of fraud or financial improprieties?
 - viii. Ensuring that timely and appropriate reports are distributed to all Directors and officers?
 - ix. Approving contracts, including securing competitive bids?
 - x. Clearly identifying the responsibilities of all individuals working for Perley Health, including staff, Directors, volunteers and contractors, and maintaining a current organizational chart?
 - xi. Preparing for the annual audit?
 - xii. Maintaining and overseeing a prudent investment policy?
 - xiii. Complying with all governmental and other reporting requirements?
 - xiv. Meeting obligations to stakeholders for communicating the Corporation's annual financial statement?

 - b. Definition of Roles including:
 - i. Maintaining up-to-date job descriptions for all positions, including staff, Directors and other volunteers?

³ Adapted from "*Internal Controls and Financial Accountability for Not-for-Profit Boards*", Attorney General Andrew Cuomo, New York, NY.

- ii. Clearly communicating the Board’s expectations of the CEO?
- c. Human Resources Policies including vacation and sick leave, ordinary and overtime compensation, other benefits, grievances (including protection for “*whistle blowers*”)?
- d. Training including orientation for new Directors and Adjunct Advisors, as well as staff training on financial controls?
- e. Maintaining and overseeing its Code of Ethics and Conflicts of Interest Policies?
- f. Sustaining an effective Audit Committee including:
 - i. Committee selection requirements, appropriate terms of reference, etc.?
 - ii. Selection of the independent external auditor?
 - iii. Meeting with the independent external auditor to discuss their findings?
 - iv. Evaluating recommendations for any necessary changes?
 - v. Confirming all federal and provincial taxes and other deductions have been actioned?
 - vi. Periodically reviewing insurance requirements?
 - vii. Reviewing any legal matters that could affect the Corporation’s financial position?
- g. Reviewing systematically the Corporation’s governance structure, procedures and programs?

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Chapter 5

HUMAN RESOURCES STEWARDSHIP ¹

This chapter defines key areas of Board responsibility for Human Resources (HR) and provides guidance to the Board for overseeing HR policies and practices and for the periodic review and audit of the effectiveness of Perley Health's HR stewardship.

5.1 General

As part of its responsibility for the long-term sustainability of Perley Health, the Board provides oversight of all resource management including Human Resources (HR).

5.1.1 Board Responsibilities with Respect to Human Resources

The Board of Directors has five key areas of responsibility with respect to human resources:

- **Relationship with the Chief Executive Officer.** The Board is responsible for all aspects of the relationship with the CEO including selection and hiring, support and performance management, succession planning and replacement.
- **Compensation.** The Board is directly responsible for setting the compensation of the CEO. In addition, the Board approves the overall compensation philosophy of Perley Health.
- **Oversight of HR Management.** The Board is responsible for ensuring that Management implements Human Resource Management infrastructure (sub-strategies, policies, programs, technology) consistent with the execution of the Strategic Plan.
- **Setting the Tone.** The Board sets a tone at the top, which establishes a corporate culture of ethical practices and behaviour.
- **Board Succession Planning.**

5.2 Chief Executive Officer (CEO)

The importance of the Board's relationship with the CEO is so vital to the operating effectiveness of Perley Health that a separate chapter is devoted to the subject (see Part III – Executive Authority: Chapter 1, Chief Executive Officer).

5.3 Compensation

Most Perley Health employees are unionized, many on contracts dating back before the organization was designated a Long-Term Care home. Perley Health participates in these union contract negotiations. However, Perley Health has little influence in setting

¹ Much of this Chapter was adapted from "20 Questions Directors of Not-For-Profit Organizations Should Ask About Human Resources", Canadian Institute of Chartered Accountants, 2011.

compensation philosophy and practices for such unionized staff.

Nevertheless, the Board is responsible for overseeing the compensation philosophy and practices of Perley Health. In this it is guided by the following principles for deliberating compensation matters including:

- Compensation is **effective** in that it is consistent with Perley Health's strategic objectives;
- Compensation is **responsible** in terms of value and cost, reflecting a wise use of Perley Health's resources;
- Compensation is **defensible** in that it complies with applicable legislation and can be explained and justified to stakeholders;
- Compensation will be **benchmarked** to compare Perley Health's compensation practices with similar LTC homes and health care facilities; and.
- Overall, Perley Health's compensation should reflect **internal equity** such that similar roles within Perley Health are compensated in a similar manner. To this end, Perley Health has awarded pay increments for non-unionized employees that are consistent with negotiated gains in pay and benefits achieved by unionized groups.

5.4 Oversight of HR Management

The third element of the Board's responsibility for human resources is to ensure that Management implements Human Resource Management infrastructure (sub-strategies, policies, programs, technology) consistent with the execution of the Strategic Plan. The Board approves significant HR undertakings such as mandates for collective bargaining, ratification of collective agreements, budgetary assumptions encompassing compensation adjustments, and financial stewardship of Perley Health's benefits program.

Although Management is responsible for the details of implementing the applicable laws and regulations for sound HR governance, the Board has a responsibility in overseeing compliance.

Organizations that fail to meet their obligations to employees can face serious investigations and lawsuits, fines and sanctions against the organization. There are some laws under which Directors could be held liable for failing to meet their obligations.

5.4.1 HR Strategy and Policies

When overseeing Perley Health's HR policies and practices, Directors have a key strategic role, both in guiding and approving the organization's talent recruitment and retention strategy, and in overseeing that Management maintains a policy framework that establishes the way that Perley Health's human capital will be managed.

To that end, Management is responsible for:

- Developing an overarching **HR strategy and implementation plan** to achieve Perley Health's long-term strategic plan;

- Maintaining a set of documented **HR policies** to guide the performance of all HR functions. These policies must be consistent with all relevant legislation and regulations, human rights codes, employment standards, workplace and occupational health and safety standards, etc. They will be updated as required in accordance with regulatory requirements and in response to evolving operational circumstances in consonance with best industry practices; and
- Providing an **HR report** (at least annually) to the Board on progress, challenges and risks associated with the fulfillment of the HR strategy and implementation plan.

5.4.2 Employee Relationships

The obligations of Perley Health to the individuals of its work force depend on whether they are employees, contractors or consultants, or volunteers. The Board is responsible for overseeing these relationships, satisfying themselves that all relationships are appropriately classified and documented making clear the rights and obligations of both the individual and Perley Health.

5.4.3 Hiring Senior Management

The hiring of staff and senior management is the prerogative of the CEO. However, in fulfilling its mandate for oversight of the organization and preserving its legitimacy and reputation, the Board necessarily has an interest in the selection of the senior management team. The Board would be interested in persons who might logically be considered in any future succession planning for the CEO's position. Also, since senior managers are often called upon to interface directly with the Board, it is important that there be an effective working relationship between the two, i.e. the Board perceives a good "fit" with the candidate. To that end, it is recommended that the CEO keep the Board fully apprised of candidates and their progress in the selection process. The CEO may seek the counsel of the Board regarding particular candidates. However, it is not the Board's decision; the CEO has exclusive authority for the hiring (and, if necessary, termination of employment) for all senior managers.

5.4.4 Board Committees involved in Oversight of HR Management

The Board is assisted in its oversight of HR Management by three Committees.

- a) The **Audit and Risk Management Committee** oversees financial stewardship of the HR function, including:
 - Reviewing the financial implications of supporting the HR plan and support recommendations to Executive Committee;
 - Monitoring various HR performance metrics to ensure performance against financial expectations; and
 - Reviewing assumptions supporting negotiations for pay and benefits and recommending any changes to the Board for approval.
- b) The **Quality of Life and Safety Committee** monitors and provides oversight to Management regarding:
 - Development and maintenance of a workplace culture that promotes the well-being of staff and volunteers;

- Trends in Perley Health's key HR performance indicators as they relate to health, safety and quality of care programs and services;
 - Staff satisfaction surveys; and
 - The impact of staffing models on health, safety, and quality of care.
- c) The **Executive Committee** provides strategic oversight for Human Resources, including:
- Recruitment and retention;
 - Development; and
 - Any Human Resources matters not mandated to other Board Committees or as requested by management.

5.5 Tone at the Top

The Board sets a tone at the top, which establishes a corporate culture of ethical practices and behaviour. Board members do this by ensuring that their own behaviour meets the highest ethical standards, and by requiring the same of the CEO and other senior staff.

Perley Health has codified the expected behaviour governing all transactions involving Perley Health in Part II, Chapter 4 (Directors – Duties, Obligations, Liabilities, and Expectations) and in Part IV (Code of Ethical Conduct) of the Board's Governance Guide.

5.6 Board Succession Planning

The Board is responsible for the ongoing maintenance of a succession plan for the replacement of outgoing Board members and for selecting, training, and developing new members so that overall, the Board has the necessary skills and competencies to fulfill the Board's mandate. See Part II, Chapter 5 of the Governance Guide (Recruitment, Development, and Recognition of Directors).

5.7 Periodic Review and Environmental Scans

As part of its strategic planning, the Board regularly conducts environmental scans to keep abreast of both external and internal factors that may impact on or compromise fulfillment of Perley Health's vision, mission, strategic goals, or objectives. This scan includes considerations related to HR practices.

In addition to the regular monitoring of HR indicators, the review of HR related subjects by Board Committees, and the receipt of the annual HR Report, the Board may request such other information as will assure itself that Perley Health's strategic objectives are being met.

5.8 HR Reports to the Board

The CEO provides an annual comprehensive review of HR performance during the prior year and an assessment of the evolving HR situation vis-à-vis Perley Health's strategic objectives.

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Chapter 6

STAKEHOLDER RELATIONS

This chapter addresses the effective maintenance of constructive relationships with key stakeholders. It addresses the responsibilities of the Board (i.e. relationship building, public communications and advocacy) as well as of individuals in meeting these expectations.

6.1 General

Perley Health engages with a diverse community of internal and external stakeholders. Internally, these include residents and clients; their friends and families; staff and volunteers; etc. The external stakeholders include the Perley Health Foundation, donors and such groups as funding agencies; regulatory authorities; community health service providers and partners; advocacy groups and professional associations; contractors and suppliers; etc. In each case, their interests in Perley Health are very specific to their needs. However, maintaining productive working relationships with all of them is essential to the Corporation in fulfilling its mandate.

Good stakeholder relations assists the Corporation in achieving its goals and objectives, through the development and execution of programs designed to generate public understanding and support. To do this, the Board:

- Represents Perley Health positively to the community and its various stakeholders;
- Fairly represents members of the Corporation and community perspectives to the Corporation;
- Ensures member and community input to planning; and
- Advocates for adequate resources to fulfill the organizational mandate.

Stakeholder relations comprises three broad functions for Perley Health:

- **Relationship-building** - the pro-active art of developing and nurturing open lines of communication with specific groups with whom Perley Health must interact in the course of fulfilling its mission;
- **Public Communications** - keeping the public and the various stakeholder groups aware of “who we are and what we do”; and
- **Advocacy** - the act of arguing in favour of a particular position or cause with a view to convincing a target audience of a need for change or for their support.

Each of these functions is described further below.

6.1.1 How We Want to be Viewed by Others

Earning the trust and respect of the broader community is an ongoing task. It is carefully built year over year, but is ever fragile. Even a minor oversight can seriously

compromise a particular stakeholder group's confidence, necessitating years to rehabilitate the desired constructive relationship.

In presenting itself to the community, the Board has established a set of principles defining how the Board wants to be viewed by Perley Health's stakeholders. In all its interactions with stakeholders, the Board should be guided by these principles. These are summarized at Appendix A, providing a touchstone for evaluating the effectiveness of the Board in its stakeholder relations.

6.2 Accountability ¹

Accountability is both about being held to account by external stakeholders, as well as about taking internal responsibility for corporate actions.

Emphasis on accountability in long-term care is on the compliance dimensions. This tends to skew organizational attention towards the interests of those who control critical resources. A predominant emphasis on compliance-driven accountability encourages health service providers to seek quick and tangible impacts, while neglecting longer-term strategic responses or riskier innovations that can address more systemic issues of social and political change.

The critical challenge for Perley Health lies in finding a balance between upward accountability to the funders, donors and regulatory authorities while remaining true to its mission. At the same time, Perley Health must remain accountable to the stakeholders of the community it serves. This balancing act requires:

- **Prioritizing** among its diverse accountabilities. Rather than striving to be accountable to everyone for everything all the time, Perley Health must decide on which accountabilities matter the most;
- **Integrating** expectations regarding its multiple accountabilities (finances, governance, performance and mission) such that there is a common understanding (i.e. alignment) throughout the organization;
- **Adapting** in the use of varied accountability mechanisms to suit Perley Health's purposes. Accountability is not simply about compliance with laws or industry standards, but is more deeply connected to organizational purpose and public trust. New innovations are unlikely to lie in oversight and punishment, but in creative forms of adaptation and learning in order to solve pressing community problems.

In sustaining this balance as strategic priorities shift, some aspects of accountability may receive less than the ideal level of attention. The Board must be prepared to accept the inherent risks of this balancing act.

6.3 Responsibilities

Given the diverse nature of Perley Health's many stakeholder groups, responsibility for establishing and nurturing effective relationships is diffused. On the one hand, the nature of the day-to-day work requires specialist subject matter expertise – especially in

¹ Adapted from "*The Many Faces of Non-profit Accountability*", Alnoor Ebrahim, Harvard Business School, 2010.

the domains of public relations and communications. On the other hand, the degree of openness and transparency required for effective relationships today means that responsibilities cannot be simply delegated to the staff experts. Maintaining effective relationships with stakeholders involves everyone who has occasion to interface with the public or any of Perley Health's diverse stakeholder groups. Nevertheless, following are some specific responsibilities.

6.3.1 Standards

Accreditation Canada has established standards for maintaining positive relationships with stakeholders. These standards are reproduced at Appendix A to Chapter 1 of this Addendum. They define a minimum with respect to expectations as to Board responsibilities and accountabilities for maintaining the confidence and respect of the larger community.

6.3.2 The Chair

Technically, the Chair is the only person authorized to speak for the Corporation, unless this has been specifically delegated to another Board member. As required, the Chair acts as the public and media spokesperson for the Board, subject to any direction provided by the Board. However, in practice, day-to-day the CEO is Perley Health's public persona.

6.3.3 The CEO

The CEO is generally the most knowledgeable, up-to-date person on most issues and transactions involving Perley Health, and is therefore responsible for interfacing with the various stakeholder groups on a day-to-day basis. As such, the Board relies on the CEO to:

- Build and maintain confidence in the character and integrity of Perley Health, with its clients, staff members, volunteers, donors, collateral agencies, the public and respective levels of government;
- Deal with client complaints in a manner that generally maintains positive stakeholder relationships within the context of a professional service;
- Alert the Board to incidents, occurrences, or activities that may place clients, staff, volunteers or Perley Health at unusual risk, censure, criticism or public disapprobation; and
- Subject to any communications policies or direction from the Board, routinely act as the Corporation's primary spokesperson with the media and the public.

6.3.4 Board Chair and CEO

From time to time, Perley Health may require official presentations to be made, advocating on such issues as public funding for Perley Health. Whereas the CEO may be required to interface with senior government officials seeking resolution to such issues, once the Board deems it necessary that the message be taken to elected authorities, the Board Chair (or a delegated Board member) will meet with those persons – usually accompanied by the CEO.

6.3.5 Board Members

Although the Board relies on designated spokespersons to communicate official messages to specific stakeholders, every Board member has responsibilities for representing Perley Health's public face in the community. As part of Perley Health's routine outreach program, Board members are natural ambassadors for the Corporation in their daily interfaces with friends and neighbours, religious and service groups, recreational associations, etc.

Not only should Directors be prepared to present facts about Perley Health, its mission, vision, values and strategic plans and about the services offered, but they can serve as the eyes and ears of Perley Health on acquiring community feedback.

In addition, every Board member can be ever-vigilant for potential partners and allies for future initiatives, (including the recruitment of new Board members or Adjunct Advisors). From time to time, Board members are also expected to provide a public presence, representing the Board at official events of Perley Health.

Notwithstanding these far-reaching, unstructured responsibilities, Board members must exercise great discretion when issues arise concerning official Board positions relating to public policy or advocacy work where official spokespersons have been designated.

6.4 Building Relationships

Waiting until a problem has been identified before approaching a stakeholder to seek support from that stakeholder to underwrite or support their cause is equivalent to crisis management. A more successful approach to stakeholder relations requires that Perley Health establish and nurture solid relationships, sometimes for many years, before laying significant expectations upon them.

The advantages of building strong, enduring relationships with various stakeholder groups include (*inter alia*):

- Establishing due credibility and respect for Perley Health's performance in enhancing the well-being of its residents and clients;
- Assessing the current situation from the stakeholders' perspectives, including:
 - The potential for their support on any given cause;
 - The potential barriers they may present to Perley Health's case;
- Gaining access to stakeholders' key decision-makers;
- Identifying potential allies, partners and possible game-breakers; etc.

Failure to build and nurture political champions can seriously delay or arrest progress on issues of vital interest to Perley Health's mission. Although Perley Health may be a big player in the eyes of some stakeholders, from the perspective of many others in the broader system of health care Perley Health is a minor player. The relationship should acknowledge that Perley Health is not (and cannot be) all things to all people all the time.

6.4.1 Stakeholder Management

Building and maintaining effective relationships with stakeholders requires strategic

management. In essence, the following activities must be carefully orchestrated to serve the purposes of Perley Health's long-term objectives:

- Maintaining an ongoing environmental scan of evolving health care issues pertinent to Perley Health's mission;
- Identifying key stakeholders in the community (including those most influential in shaping public policy);
- Developing and nurturing relationships with key stakeholders (the critical few) for the long term by:
 - Promoting integration and collaboration with key health service providers; and
 - Seeking strategic alliances and partnerships;
- Promoting media relations and public interest in Perley Health; and
- Advocating on behalf of Perley Health to:
 - Increase public awareness of Perley Health regarding its mission and vision;
 - Argue for change regarding particular issues.

6.4.2 Identifying Key Stakeholders

The nature of Perley Health's expanding mission and strategic direction spans a complex web of diverse stakeholders (e.g. residents and clients, families and friends, staff and volunteers, governmental authorities and funding agencies, local health service providers, contractors and suppliers, local citizens and the media, etc.). But they are not all vital to Perley Health's interests all the time. As issues arise, the needs of appropriate interest groups should be central in the discussion.

The challenge for the Board on any significant issue is to identify the truly key stakeholders and focus its attention on understanding their needs as expeditiously as possible. This process should identify not only the key decision makers, but also those persons or groups who have the most influence with the decision makers.

6.4.3 Political Relationships

Day-to-day, senior management develops the necessary working relationships for the conduct of operational matters. These relationships may involve senior officials and staffers up to the highest offices. As well, if political engagement is required, the Board may get involved.

To facilitate such political engagement, the Board must actively develop and maintain a positive relationship with a few of the key political representatives at each level of government, and of various political persuasions.

If an issue facing Perley Health is important enough to require the attention of political representatives, the Board Chair (or his/her delegated representative) is required to deal directly with them; more often than not, this requires a team approach involving both the Chair and the CEO. Before proceeding, it is essential that the Chair enjoy the support of a fully informed Board.²

² It is recognized that from time to time the CEO may encounter face-to-face situations with key political representatives; great discretion is required in any effort to progress Perley Health's cause in such circumstances.

In an ideal world, a sound working relationship will have already been established with the elected official's aides and staff. For any meetings with political representatives, the Board should have developed a clear communications strategy (regarding the scope and message, the desired outcome, etc.) – whether the encounter is to plead for a cause or merely to lay groundwork in developing awareness of an evolving situation.

In dealing with politicians, the Board should:

- Build upon existing relationships with that office;
- Determine the best timing for any direct interaction;
- Maintain a consistent strategy when advocating for Perley Health;
- Employ a team approach if practicable;
- Make Perley Health's case relevant to the politician's broader interests and agendas;
- Focus the agenda (i.e. avoid the temptation to overload the opportunity);
- Address any pushback and criticisms of a particular agenda;
- Leave a clear and concise message for a mutually desirable outcome;
- Identify key people at all levels and sides of government who should be aware of Perley Health's case; and
- In making a specific request of a politician, note that strategically, potential success is most likely early in the government's tenure.

6.4.4 Relationship with the Media

Historically, Perley Health has maintained a low profile with the media, responding only as necessary in rare times of crisis. However, the media can play a significant role in getting issues before the public and the attention of the pertinent political powers. Being seen by the community as leaders and innovators in providing progressive seniors' care not only influences governments but also donors and respective stakeholders. This is reflected in Perley Health's communications plan and is one of those activities that can engage the Board leadership with management in mutually beneficial activities. For these purposes, the communication strategy may include editorial board appearances on progressive approaches to the care of our elderly, Op-ed articles, speaking engagements at local, provincial and even national events involving particular associations.

6.4.5 Relationship with the Perley Health Foundation

Perley Health and the Perley Health Foundation are two separate corporate entities, sharing the same ultimate goal of improving the well-being of seniors. Two separate boards govern their day-to-day operations.

The Perley Health Foundation's support is fundamental to Perley Health's long-term viability – especially as the public purse tightens. Maintaining a mutually productive working relationship between the two Boards is essential. This requires:

- Mutual understanding of the respective roles of the two Boards;
- Full appreciation of Perley Health's: mandate, vision, mission, values, strategic directions, operating realities, successes and challenges;

- Collaboration and coordination of strategic communications planning and messaging; and
- Regular evaluation of the relationship's effectiveness.

The two Boards are signatory to a Memorandum of Understanding which outlines guiding principles for this relationship.

Notwithstanding the legal separation of authority, from the public's perspective, there is but one "Perley Health". It is imperative that both entities "sing from the same song sheet", that there be a unity in all Perley Health messaging to external stakeholders. To that end, the two Boards have agreed on a Joint Communications Strategy which outlines key messaging aligned with Perley Health's strategic directions, implementation strategies and vehicles, and measurements of success.

6.5 Public Communications ³

Good communication can greatly enhance the effectiveness of any organization. Perley Health is one of the larger long-term care homes in the province and is significantly expanding the scope of services offered. It needs to tell people about the work it does, the services it offers and its need for financial and volunteer support. It must also be prepared to answer questions from corporate members, the media, the public and stakeholders.

Such communications contribute to the public image and reputation of Perley Health. It is important that individual Directors, volunteers and staff members know when it is appropriate for them to provide information and answer questions, and when they should refer the communicating to designated spokespersons.

Successful organizations are effective in balancing openness and caution in their communications policy. Generally, they encourage Directors, volunteers and staff to promote the organization, its programs and upcoming events — information that is usually available in brochures, newsletters and the website. Fact sheets and suggested answers can be valuable for anyone involved in communications.

For information that is more technical, complex or sensitive it is important to coordinate and clarify roles and responsibilities by defining who can speak and on what, and by providing training for spokespersons. This is particularly vital in times of crisis. Crisis planning should identify a specific individual who will present information and handle questions from members, the public and the news media, and inform staff, volunteers and Directors where questions can be referred.

6.5.1 Who Speaks for Perley Health?

Authority to speak on behalf of the Corporation rests with the Chair and/or CEO. This authority may be delegated by either of them to others in Perley Health within their special fields of competence or knowledge. In general:

- The Chair will represent the Corporation on matters of Board policy and will meet

³ Adapted from the Chartered Accountants of Canada publication, "20 Questions Directors of Not-for-profit Organizations Should Ask about Governance" © 2006.

- with elected officials;
- The CEO will represent the Corporation on operational issues, and will meet with senior non-elected members of government and the media;
- Either may represent the Corporation on issues related to advocacy on behalf of the mandate of Perley Health;
- Any major statements of an advocacy nature must be consistent with the general parameters of Board-approved policies or positions.

This is not intended to inhibit private expression of personal or professional opinions, but care should be taken by individual Directors to distinguish such opinions from positions of the Corporation. Directors are also expected to avoid public statements that might undercut or obscure the messages conveyed by the organization's approved spokespersons. They are expected to be particularly judicious about this because their public profile may deflect attention away from messages conveyed by the official spokespersons and generate confusion or controversy.

6.5.2 Public Accountability

As stated earlier, Perley Health faces the challenge of balancing its accountability upwards (reporting on regulatory compliance and fiduciary aspects), against its accountability laterally and downwards to its various stakeholders of the broader community.

Management is accountable for submitting specific operational reports to various authorities on a continuing basis. The reporting requirements are clearly spelled out and include reports for particular data and information in clinical, personnel, financial, and other areas. However, public accountability also includes telling all stakeholders openly and honestly what Perley Health is about, what it has achieved and how it has managed its resources.

Annual Meeting. In a general way, this is achieved through the presentation of the Chairman's annual report at the Annual Meeting of the Corporation. Typically, the Treasurer also presents the annual financial statement at this meeting, which carries the authority of having been approved by the Corporation's independent auditor.

Public Communications. In a less formal manner, Perley Health keeps the community informed of ongoing activities, events and major projects through its Newsletter and its updates to the community.

Web Site. Perley Health also posts information about the organization and its activities, including its governance structure and policies, on-line.

Stakeholder Associations. Perley Health meets on a regular basis with specific stakeholder groups (such as resident councils, the local community, veterans' associations, etc.) to update them on specific developments and to hear their concerns.

Public Engagement. Senior managers and Board members are increasingly participating in public fora on pertinent issues, putting a face on Perley Health, sharing experience, and learning from others. Through such dialogue they can build relationships, quietly advocate for change, identify potential allies, and identify barriers to

fulfilling the Corporation's vision. As well, Perley Health provides an annual report to the community.

6.6 Advocacy

Advocacy is the act of arguing in favour of, or supporting, something, such as a particular cause or idea. The purpose of advocacy is to bring about change, usually with respect to particular policies or laws. However, advocacy can also be used to raise public awareness and understanding of an issue.

Advocacy can focus at different levels, from the local community to a provincial or even a national level. It can encompass a range of activities from one-on-one meetings with key officials to wide public communications campaigns. Preparing for advocacy work can be painstaking in terms of defining the optimal communication strategy and refining the appropriate message for the target population. Its execution can be both extensive and expensive, and the outcome may be failure to convince.

The Board's role legitimately includes being a political advocate for Perley Health's interests. Its success will be dependent on how effective it has been in creating and nurturing effective relationships with those politicians who can influence Perley Health's outcomes. This requires careful strategic planning.

To guide the Board in undertaking advocacy work, it has established a separate policy, Advocacy on Behalf of Perley Health, which is included in Part IV of the Governance Guide.

Advocacy can be critical in terms of Perley Health's ability to:

- Improve community awareness of the evolving situation re the fulfillment of Perley Health's mission;
- Achieve alignment between community expectations and Perley Health's vision;
- Garner support of key stakeholders and potential partners on particular issues.

6.6.1 AdvantAge Ontario

AdvantAge Ontario is a provincial, membership-based organization that has represented not-for-profit providers of long-term care, services and housing for seniors for over 90 years. This association formally lobbies government – framing issues facing today's seniors and arguing for change in governmental support for its membership.

The CEO of Perley Health has been an active participant in AdvantAge Ontario governance for many years, thereby ensuring that Perley Health's perspective is shared with key players in this sector of health care. As a consequence, the CEO is able to keep the Board apprised of the political landscape and the evolving issues impacting on Perley Health's strategic plans.

6.7 Stakeholder Relations Review

As in all other aspects of Board governance, periodic reviews of organizational performance are essential for the Board to maintain an informed basis for strategic

planning and decision-making.

Accreditation Canada has laid down standards for health service providers to evaluate their effectiveness in maintaining sound relationships with their diverse stakeholders. These standards are appended in Appendix A to Chapter 1 of this Addendum.

A further review checklist is set out in Appendix B to this Chapter, to guide the Board in routinely assessing the effectiveness of their efforts to connect constructively with those who have the potential to assist (or hinder) the achievement of Perley Health's strategic objectives and the fulfillment of its vision. In this regard, the Board must recognize the difference between:

- Reviewing the effectiveness of specific communications programs (e.g. marketing particular services) which is a management function; and
- Evaluating the strategic effectiveness of Perley Health's efforts to build and sustain essential relations and to communicate with its stakeholders (which is a Board function).

The wide variations in needs of Perley Health's diverse stakeholder groups can result in wide differences in the effectiveness of the organization's relationship-building and communications efforts. For example, the requirements for fostering strong relationships with key politicians differs from those required for effective relationships with senior government officials, staff relations, or media relations. One size will not fit all. Therefore the objectives, scope and nature of auditing relationships for each will vary.

From time to time situations may arise that warrant professional expertise to conduct a formal audit of the effectiveness of Perley Health's communications with its stakeholders. When any of the following conditions develop, consideration should be given to a formal audit:

- Perley Health is planning a major change in strategic direction (such as a merger, the type or volume of programs and services being offered, etc.);
- A change in the CEO;
- Perley Health is frequently caught off-guard by developing issues;
- Perley Health finds itself frequently on the defensive with various stakeholder groups;
- Perley Health's position on controversial issues continues to be misunderstood;
- The media are not interested in community issues related to Perley Health and its mission;
- Perley Health communications products are not consistently well received by key stakeholder groups;
- A key stakeholder group is challenging the relevance and effectiveness of Perley Health's contribution to the community.

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Appendix A
to Chapter 6 of the Addendum

Principles for Perley Health Board of Directors:
"How We Want to be Viewed by Others"

As part of its Governance Development Plan, the Board of Perley Health seeks to maximize its effectiveness through an evolution of its culture. In all its interactions with stakeholders, the Board will be guided by these principles, which define "how we want to be viewed by others". These principles provide a touchstone for evaluating the effectiveness of the Board in its stakeholder relations.

Other Board Members

- Vision focused
- Respectful
- Thoughtful
- Engaged and committed
- Innovative
- Candid and constructive

The Perley Health Foundation

- Key supporters of the Foundation's efforts to fund-raise through effective actions to ensure Perley Health remains widely recognized as a caring and innovative residence for veterans and seniors
- An entity fully committed to the preservation of Perley Health's historical role of support to our region's Veteran population
- A forward-looking proponent of research in frailty-informed care to improve Perley Health's ability to look after its own residents and to assist other organizations and seniors across the city, the province and the country

Management

- Respectful and collaborative
- Effective and respected voice of governance
- Visionary while setting realistic expectations
- Clear about the relative roles of management and the Board

Staff

- Based on our demonstrated actions, perceived as being engaged and knowledgeable about the efforts, concerns and well-being of our valued staff members

Volunteers

- Fully aware of and helping to acknowledge the outstanding contributions made daily and throughout the year by our large and highly-dedicated volunteer cadre

Community and Veteran Clients

- Passionately ensuring excellence in service
- Respectful and caring

- Serving them with commitment, competence and conviction
- Thinking aspirationally but acting practically

The Seniors Care Community

- A valued partner
- A source of information and evidence and a Centre of Excellence
- Advocate for those we serve and the wider community

Our Broader Community

- Proactive, open and transparent
- Providing clear and consistent communication (a voice of reason)
- Pursuing excellence in care for seniors
- Responsible and sensitive stewards and community partners
- Accountable to broader Ottawa community.

* * *

**Appendix B
to Chapter 6 of the Addendum**

Stakeholder Relations Review Checklist

1. Pursuant to Accreditation Canada's Standards for Sustainable Governance, the Board:
 - a. Strives to maintain a positive working relationship with Perley Health's diverse stakeholder groups; and
 - b. Demonstrates accountability to Perley Health's stakeholders.
2. The Board and management together are engaged in a process of building and nurturing long-term relationships with such stakeholder groups, key decision makers and those of critical influence as:
 - a. Politicians;
 - b. Senior government officials;
 - c. Potential partners within Ontario Health; and
 - d. The media.
3. The Board considers external and internal communications to be a critical element for achieving its strategic objectives and fulfilling Perley Health's vision.
4. The Board is satisfied that:
 - a. Management understands and supports communications as an integral part of Perley Health's viability and success;
 - b. Management's communications policy reflects the Board's philosophy of openness and transparency in its relationships with stakeholders;
 - c. Management is following a strategic, coherent and comprehensive communications plan;
 - d. Management of the Health Centre and the Foundation are collaborating effectively in supporting Perley Health's vision, mission and strategic directions;
 - e. Sufficient resources are being allocated to the maintenance of stakeholder relations and the planning and delivery of an effective communications program;
 - f. Communications is an integral aspect of every major project, program and strategy;
 - g. Communications is not seen as an isolated or specialty function, rather staff at all levels can help carry the message.
5. Perley Health's communications practices systematically:
 - a. Align its communications vision with its overall vision and mission;
 - b. Assess the current environment and competition, taking contextual variables into account in communications planning;
 - c. Define specific, measurable communications goals and outcomes;
 - d. Target selected stakeholder groups including key decision makers and those with influence on priority issues;
 - e. Outline specific, clear and persuasive messages, including the desired action and outcomes;
 - f. Identify the most appropriate messengers and communications medium for the targeted audiences.

6. In implementing Perley Health’s communications plan, the Board is satisfied that:
 - a. Attractive materials and messaging are appealing to the key stakeholder groups;
 - b. Messengers are appropriately prepared to carry key messages and are achieving consistent delivery;
 - c. Linkages with particular stakeholders are helping to carry the message;
 - d. As necessary, the message is carried through multiple outlets to reinforce its impact;
 - e. Management is regularly monitoring and evaluating the effectiveness of the communication process, adjusting as necessary, and reporting o the Board accordingly.
7. Perley Health is striving for continuous improvement in its stakeholder relations initiatives by:
 - a. Regularly conducting a SWOT ⁴ analysis of the its internal and external relationships as well as its communications initiatives;
 - b. Systematically capturing feedback using a variety of methods;
 - c. Analyzing feedback data;
 - d. Adjusting the message and/or delivery methods;
 - e. Reallocating resources, if necessary;
 - f. Validating the communications strategy.
8. The Board is satisfied that:
 - a. Perley Health has established and is maintaining effective relationships with those decision-makers key to the fulfillment of Perley Health’s vision and the achievement of its mission; and
 - b. These decision makers understand Perley Health’s perspective on current issues.

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⁴ SWOT: Strengths, Weaknesses, Opportunities and Threats.

Chapter 7

ENTERPRISE RISK MANAGEMENT ¹

This chapter outlines the Board's role in managing the risk facing Perley Health. It provides guidance for preparing for risk, preventing risk, and protecting against risks, and discusses risk acceptability and risk tolerance.

7.1 General

Risk accompanies every human endeavor, both personal and organizational. Managing risk is an integral part of good governance. Maintenance of the viability and integrity of Perley Health is a core responsibility of the Board. Successful organizations have effective processes for proactively identifying risks before any adverse consequences occur and for managing those risks to reduce or eliminate them. In spite of the best strategic planning and organizational effort, things that can go wrong sometimes do, and reality deviates from assumptions and intentions. Over time systematic risk management practices lead to a risk-aware culture across the organization, where risk becomes a key consideration in everything the Board, staff and volunteers do.

7.1.1 Risk Management Standards

Accreditation Canada assesses organizations against standards developed by Health Standards Organization (HSO), International Standards Organization (ISO) and others. These include standards for financial planning and control, as well as for the allocation of resources. Management utilizes the Accreditation Canada process and assessment to ensure that Policies, Processes and Guidelines reflect best practices.

The Accreditation Canada standards can be found in Appendix A to Chapter 1 of this Addendum. For standards related to financial stewardship, see section 9 of that Appendix. The Board is responsible for ensuring that these standards are met (see section 12 of that Appendix).

7.1.2 Board's Role in Risk Management

The Board has overall accountability for risk management of Perley Health. Its role includes:

- Promoting an awareness of the need to manage risks;
- Identifying and assessing the risks that could affect the achievement of Perley Health's strategy;
- Overseeing the establishment of a coherent framework of policies and processes for managing risk; and
- Learning from Perley Health's experience in managing its risks.

¹ This chapter draws upon material from the Ontario Hospital Association's "Guide to Good Governance" Chapter 8.

The Board delegates to the CEO most of the detailed aspects of identifying, assessing and managing the day-to-day operational risks – subject to this Board policy. In so doing, the Board must be satisfied that the CEO has measures in place to assure prudent management of risks.

7.2 Enterprise Risk Management

The process of ensuring systematic risk assessment across the organization or enterprise is generally referred to as enterprise risk management or corporate risk management. Effective enterprise risk management involves assessing threats in a way that is compatible with Perley Health's values, strategic objectives and risk tolerance, and establishing a coherent framework of policies and processes for the effective management of risk across the entire enterprise.

The Board requires Directors who are comfortable in overseeing and challenging management in the establishment of a risk-aware operating culture across the organization and finding the right balance between opportunity and unacceptable risk.

7.2.1 Forms of Risk

Risk at Perley Health involves anything that could affect the corporation's ability to fulfill its mission, meet its strategic objectives or preserve its reputation. Some potential areas of risk for Perley Health include:

- **Governance risk:** the risk of ineffective oversight, strategic thinking or decision-making due to issues with Board composition, competence or capacity.
- **Strategic risk:** the risk of inappropriate or unrealistic goals and objectives or of keeping the organization strong and relevant, or the risk of losing mission relevance, failing to respond effectively to changing economic or demographic circumstances, losing the confidence of funding sources and community support, etc.
- **Safety/Security risk:** the risk that residents, tenants, visitors or staff will suffer serious injury or loss of life or that their safety and security will be compromised due to lack of planning, inappropriate or ineffective standards or procedures, negligence, etc.
- **Legal and Regulatory:** the risk that Perley Health will fail to comply with applicable legislation or regulatory requirements, such as resident care standards, remittance of payroll deductions, violations of privacy laws, etc.
- **Financial risk:** the risk that Perley Health will be unable to operate within its financial resources due to such factors as poor fiscal management, inappropriate financial decisions based on inaccurate information or assumptions, fraud or embezzlement, etc.
- **Human resource risk:** the risk that Perley Health is unable to attract or retain staff with appropriate skill mix.
- **Operational risk:** the risk of unsatisfactory care or service delivery.
- **Infrastructure risk:** the risk that the physical plant, IT systems or other facilities will fail to meet the needs of residents, tenants, staff or other clients.
- **Partnership:** the risk that Perley Rideau's partners will be unable to meet their commitments to the Health Centre.

As a result of risks not being effectively managed **or mitigated** a number of unfavourable *outcomes* or consequences could occur:

- **Reputational** – losing goodwill, status in the community, the ability to raise funds, or appeal to prospective employees and volunteers;
- **Legal** – being subject to legal action;
- **Financial** – incurring crippling financial costs or liabilities;
- **Personal** – causing harm to residents, tenants, visitors, staff or volunteers
- **Operational** – impaired service delivery or deterioration of buildings and other assets.

7.2.2 Phases of Risk Management

One framework for approaching enterprise risk management has three interrelated components:

- **Preparation** involves identifying and assessing potential risks, as well as determining how best to mitigate each risk. Effective preparation includes:
 - Periodically conducting comprehensive risk identification processes in all functional areas of the organization (e.g. clinical, operational, financial, human resources, external relations, plant and facilities, etc.);
 - Assessing each identified risk, evaluating both the potential consequences of the risk arising as well as the probability of occurrence; and
 - Selecting the most appropriate measures to reduce or eliminate the risk.
- **Prevention** of risks increases the likelihood of achieving the strategic and operating plans. It involves such activities as:
 - Providing policies and processes that are designed to minimize or avoid risks;
 - Performance monitoring to facilitate corrective action by management;
 - Ensuring staff competence;
 - Building an organizational culture that promotes achieving results as well as identifying and reducing risks; and
 - Contingency planning to diminish the impact of potential risks and surprise events. This includes emergency preparedness for disasters and infection outbreaks.
- **Protection** includes managing the effects of risks on the organization. Once the risks have been identified and assessed, decisions are required as to how best to mitigate or eliminate those posing the largest threats. Six potential strategies follow:
 - **Exposure avoidance.** The simplest strategy is to just not do whatever is posing unacceptable risk. However, risk-averse boards will miss opportunities for organizational improvement. Part of the risk assessment process must include consideration of the downside if the organization does nothing. Before abandoning good ideas, the Board should look for activities that will control the high risks to an acceptable degree.
 - **Loss reduction.** Well-developed procedures with checks and balances can help detect and reduce the likelihood and/or severity of particular risks. The medical field follows well defined procedures to reduce risks to patients and

staff. Similarly, accountants use internal controls to protect assets and keep accurate records.

- **Segregation of exposure.** Action is taken to isolate the effects of the risk, perhaps by building redundancy into the system or ensuring viable “off ramps” in the decision-making process with clearly defined criteria for their use.
- **Recovery measures.** In some operating systems it is possible to employ procedures for trapping risks, errors or failures, before the problem compounds into a more serious problem.
- **Transferring risk.** The risk is shared with somebody else, perhaps a partner for the initiative. Buying insurance is one way of transferring risk – especially for such perils as fire, theft and liability. Contractual relationships with organizations with particular expertise can help reduce some risks.
- **Accepting risk.** Providing that the risk is unlikely to materialize or would not cause unacceptable harm to the organization, it may make more sense to accept but monitor the risk.

7.2.3 Risk Acceptability

The implications of accepting a risk and the proposed risk management strategy would be based on such factors as:

- **Corporate:** Are the potential consequences of the risk compatible with Perley Health’s vision, values and policies?
- **Affordability:** Does the nature of the risk defy cost-effective resolution?
- **Legal:** Is the risk in conformance with current legislation and regulations?
- **Cultural:** How will Perley Health’s staff and stakeholders view this risk?
- **Market:** Will Perley Health’s competitiveness and well-being be compromised by not reducing or eliminating this risk?
- **Political:** Will there be a political price to pay for accepting this risk?
- **Public:** How influential will the media or special interest groups be in affecting Perley Health’s stakeholders regarding this risk?

7.2.4 Risk Tolerance

Risk acceptance is directly related to the organization’s risk tolerance. No viable corporation can be completely risk averse; nor will it thrive in the long run with a “nothing ventured, nothing gained” approach to risk. The Board must find the optimum balance between risk and opportunity.

Defining and prescribing acceptable levels of risk for the Board (i.e. its “risk tolerance”) depends on the situation. Following are some considerations for determining Perley Health’s risk tolerance:

- Its “capacity for risk”, including the strength of its finances, its donor support, reputation and credibility, the experience and competence of its staff, the collective wisdom of the Board and senior management, etc.
- The reliability of its underlying assumptions;
- The amount of money that Perley Health is prepared to lose if a particular initiative fails;

- The potential risk to Perley Health’s reputation if a strategy or project is not successful;
- The limits to the authority of the CEO beyond which the Board will not go;
- The quality and type of the information deemed essential by the Board before accepting the risk; for example:
 - Quantitative analysis?
 - Integrity of the business case?
 - Alternative courses of action?
 - Outside expert opinions?
 - Worst case scenarios?

At the end of the day, risk tolerance is all about “comfort zone”. Today’s Board may have a completely different comfort zone than a Board of the future.

7.2.5 Board Behaviour

Relying on the oversight of management is not sufficient to achieve sound enterprise risk management. The Board must ensure that its own behaviour and processes are in line with respect to risk. The Board sets the tone for the Corporation’s culture of risk awareness. It must lead by example.

Knowledge and Ability of Directors. The first requirement is that Board members and adjunct advisors know their jobs and have the skills to perform them. This includes:

- Recruiting members for the skills and knowledge required on the Board and its Committees (with consideration given to continuity and turnover);
- Ensuring that orientation is in place so that each Board and Committee member understands the nature of the Board’s role and the Committees’ roles with respect to risk management;
- Periodic review of Perley Health’s By-Laws and Directives;
- Requiring financial literacy of those members on Committees addressing financial and audit matters.

Organizing for Risk Management. The Board does not require a separate committee for enterprise risk management. Risks may overlap in many areas; for example, clinical risks revealed in the Quality of Life and Safety Committee may have collateral impact on relationships with the regulatory authority and the community. Similarly funding issues may impact on relations with the province, bankers and the community. Thus, risk management is a normal part of Perley Health operating culture. That is: everyone is in a position to identify risks and refer them to an appropriate level of management. At the Board level, several Committees are involved in consideration of particular major risks that inherently threaten the viability of the organization. For example:

- ***Quality of Life and Safety Committee*** oversees quality assurance and management programs relative to resident and client liability, infection control and contingencies;
- ***Audit and Risk Management Committee*** oversees evolving financial conditions including the adequacy of the budget, financial efficiency, sensitivity to revenue shortfalls, etc. It also assesses insurance and financial needs; and it ensures that

the corporate risk profile is reviewed regularly and corporate risks are appropriately managed;

- **Governance Committee** reviews and assesses the effectiveness of the Board's and management's risk management policies and procedures across the entire "enterprise".

7.2.6 Reviewing Enterprise Risk Management

Appendix A to this Chapter includes a Review Checklist for assessing the fulfillment of the Board's responsibilities in exercising effective Enterprise Risk Management.

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Review Checklist for Risk Management

Governance

- The By-Laws and all other documents essential to good governance are current and practicable, and actual governance practices are compliant.
- The Board possesses collectively the requisite skills, knowledge and experience for their duties.
- The Board receives adequate and appropriate information for the performance of its duties (including perspectives beyond those of management, when necessary).
- Perley Health's performance monitoring system includes monitoring and evaluation of its enterprise risk management policies and processes.
- The Board has provided a written job description for the CEO and has specifically defined the limits of the CEO's authority.

Risk Aware Culture

- Risk awareness is an integral element of the corporate culture in strategic planning as well as in day-to-day decision-making in governance, management and operations.
- Perley Health's philosophy and values include codes of conduct with protection for whistle blowers.
- Staff receive formal training with respect to Perley Health's risk management philosophy and processes.
- Operating practices throughout the organization comply with:
 - Statutory and regulatory requirements; and
 - Perley Health policies and its ethical framework.

Risk Management Processes

- Management follows policies and procedures for the systematic identification, assessment and mitigation of risks across the Perley Health enterprise.
- Resources are sufficient to minimize risk to employees, volunteers and beneficiaries of services provided by Perley Health.
- A sound quality management program is in effect to protect Perley Health from deficiencies in resident or client care, including a safety management system.
- Perley Health's risk management programs and activities are monitored and evaluated on an on-going basis.
- Management reports at least annually to the Board on significant corporate or enterprise risks (and opportunities) facing the Board and management's proposed action for managing these.
- The Board regularly receives risk reports from management and annually reviews and discusses the corporate risk profile to ensure all risks have been appropriately identified, assessed and managed.
- The Board's annual strategic assessment includes an assessment of the corporate risks confronting Perley Health.

Financial Risk Management

Sound financial management policies and processes are in effect including:

- Budget and capital planning processes to protect Perley Health against predictable risks to its sustainability;
- Any defined financial reserves deemed necessary;
- An effective regime of internal financial controls for approving expenditures;
- An investment policy to protect Perley Health investments;
- A policy framework for contracting for the procurement and delivery of goods and services; and
- Adequate insurance provisions are in place to protect the organization and the Board from potential liabilities.

Other Resource Risk Management

A coherent framework of policies and procedures are in place for:

- The effective utilization of Perley Health's human capital;
- The development, maintenance and operation of Perley Health's informatics services that provide accurate, secure information that is available when needed;
- The sustainability of Perley Health's plant and the maintenance and replacement of its other physical assets; and
- The ongoing maintenance of effective working relationships with stakeholders, preserving the reputation of Perley Health as a trusted and respected partner.

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Chapter 8

PERFORMANCE MANAGEMENT ¹

This chapter identifies key areas of Board responsibility for performance monitoring and Provides guidance in the use of performance monitoring reports.

8.1 General

One of the Board's responsibilities is to oversee the performance of Perley Health, especially in terms of quality of care and services, financial condition and progress on attaining its strategic goals.

As a normal part of performance management today, Perley Health establishes objectives and reports performance results on a monthly, quarterly and annual basis, and an assessment is made as to whether a correction is required based on that performance. This process is generally referred to as performance management.

Performance management in turn implies measurement. Consequently, the term performance measurement is used to establish measures and indicators that quantify performance objectives as a basis for planning targets and monitoring actual results. This information is used to assess, and make judgments about, whether the actual progress is adequate and what corrective action is needed.

8.1.1 Stewardship

Stewardship includes monitoring performance and communicating with stakeholders. Because resources are limited, Directors must make sure these resources are well managed and used in a way that gets results. This is important, not only to the organization itself but also to the stakeholders who benefit from the organization's activities or provide support. The Board's responsibilities include supporting management when it communicates the organization's activities, financial and other performance results to corporate members, providers of funding, appropriate government agencies, and other stakeholders.

8.2 Performance Monitoring

8.2.1 How to Measure and Monitor Performance? ²

There is an old adage that "What gets measured, gets done". Measures of success (e.g. objectives) often define success, and the proper determination of a measure is vital to achieving the strategy.

¹ This chapter draws heavily from the OHA's "Guide to Good Governance".

² Adapted from the Chartered Accountants of Canada publication, "20 Questions Directors of Not-for-profit Organizations Should Ask about Governance" © 2006, question 18.

Good strategic and operational planning includes measurable objectives that reflect and build on actual results and achievements. This is not always easy for not-for-profit organizations, whose legal purpose is often expressed in terms of meeting a social need.

There are, essentially, two types of measurement: quantitative and qualitative.

Quantitative measures record the incidence of events and other things that can be counted, such as the number of people who received a particular service to a defined standard, etc. These measures, including financial results, can reflect the organization's efficiency and effectiveness in getting things done.

Qualitative measures deal with opinions and feelings – very important considerations for not-for-profits – and thus with the organization's effectiveness in delivering the appropriate quality of service. Qualitative measures can be expressed in numbers by using such techniques as surveying people and recording the results; e.g. by asking people to rate their satisfaction on a scale of 1 to 10.

8.2.2 Performance Monitoring Standards

Accreditation Canada has laid out a set of criteria for performance monitoring in its Governance Standards. These are reproduced at Appendix A to Chapter 1 of this Addendum.

8.2.3 Board's Performance Monitoring Responsibilities

The Board is responsible for ensuring that Management has adequate systems in place for:

- Monitoring organizational performance on a monthly, quarterly and annual basis, as determined by the Board, such that:
 - Perley Health's operations are in conformity with all legal and regulatory requirements and the organization's values;
 - Perley Health meets Accreditation Canada's standards;
 - Perley Health's strategic directions and objectives are being fulfilled;
- Reporting to corporate members, funders and other key stakeholders.

The Board must oversee the performance of seven key areas of responsibility:

- Fulfillment of mission, vision and strategy;
- Performance of Chief Executive Officer (CEO);
- Quality of care and services;
- Financial condition;
- Work force and human resources;
- External relationships; and
- The Board's own effectiveness.

The Board and Management have established a process for monitoring and assessing performance on a regular basis. The process includes:

- Tools for assessment;
- Measures and indicators (primarily through performance reports); and
- Assigned responsibility for providing the required information.

The Board uses measures wherever these can support its ability to assess and make judgments about its key areas of responsibility. The chart entitled Board Responsibilities in Performance Management (found below and continuing on the next page) offers some general suggestions. However, the specific methodology used by the Board to measure performance is the review of performance reports compiled on a regular basis by Management.

The Board has access to formal and informal reports to assist in monitoring and evaluating the organization's effectiveness. Collectively these comprise a diversity of perspectives that constitute a sound basis for informing the Board's own perspective, including but not limited to:

- Quarterly quality and safety performance reports;
- Annual Human Resources performance reports;
- Financial reports (quarterly reports and annual audited statements);
- Quantitative measures reports;
- MOLTC Inspection Reports;
- Accreditation Canada reports;
- Satisfaction surveys (residents and families, staff);
- Program evaluations;
- Focus groups (with staff, families, volunteers, community, etc.);
- Board committee reports (including strategic assessments, etc.); and
- Board questionnaires.

With respect to evaluating its own performance, the Board has a comprehensive process for assessing the effectiveness of its own governance, collectively and individually. (See Part II, Chapter 6 of the Governance Guide for further detail.) In addition, a number of other Chapters in Part II of the Governance Guide contain checklists for reviewing various aspects of Board and Corporation performance.

Board Responsibilities in Performance Management

Board Responsibility Area	Board Approach to Performance Management	Use of Measures
MISSION, VALUES, VISION AND STRATEGIC DIRECTIONS	Direct role of Board to assess the implementation of the strategic plan at least annually.	Assess qualitatively and quantitatively the progress in implementing the strategic directions and initiatives and accomplishing goals where these are measured.

(chart continues on following page)

Board Responsibilities in Performance Management (continued from previous page)

Board Responsibility Area	Board Approach to Performance Management	Use of Measures
EXECUTIVE PERFORMANCE	Performance of CEO through annual evaluations and quarterly review.	See Part III, Chapter 1, Appendix C of the Governance Guide, (e.g. core accountabilities and targeted objectives).
	Oversee executive performance through assessment of Perley Health's results.	Assess accreditation and compliance visit results, financial audits, satisfaction surveys, quality indicator performance, etc.
QUALITY OF CARE AND SAFETY	Essentially an aspect of organizational performance related to executive performance (above).	Performance measures and indicators to monitor performance against commitments (i.e. Perley Health's performance monitoring system).
WORKFORCE AND HUMAN RESOURCES		
FINANCIAL CONDITION		
EXTERNAL RELATIONSHIPS	Direct role of Board to consider quality of external relationships with key stakeholders - e.g. MOLTC, community and local agencies.	Qualitative assessment of quality of relationships, and quality of local health system integration.
BOARD'S OWN EFFECTIVENESS	Various aspects to consider – essentially a qualitative assessment of Board processes and effectiveness.	See Chapter 1, Appendix A of this Addendum: Accreditation Canada's <i>Governance Standards</i> ; and Appendix B: <i>Governance Review Checklist</i> .

8.3 Performance Management

8.3.1 Factors Affecting Performance Management for the Board

The Board oversees the organization's performance through its oversight of the CEO's and Management's overall performance. Measures indicative of results are required. Many factors must be considered in framing a performance monitoring system that will serve the Board.

Linkages between Strategic Planning and Annual Plans

A sound performance management and measurement system connects the strategic plan to the annual operating performance.

- Strategic plans should have measures of performance for a longer time frame (three to five years);
- As part of the strategic plan, there should be milestones for making progress to the

five-year vision (i.e. identify what should be achieved by the end of Year One and Year Three, etc.); and

- Annual operating plans should establish corresponding one-year targets.

Accountability Agreements and Measurement

Accountability agreements between the Ministry of Long-Term Care and Perley Health provide the basis for reporting results to government. These accountability agreements cover a wide range of performance indicators and service volumes. Signatories are bound by the performance commitments in the defined performance areas which include:

- Financial health;
- Resident and client care and access;
- Organizational health; and
- System integration.

Perley Health's performance monitoring system must track the performance in the defined areas. Accordingly, the Board will need to review these measures in carrying out its performance oversight responsibility.

Good Reporting

A sound measurement and reporting system has the following specifications:

- Actual performance compared to planned results (targets);
- Actual performance compared to available benchmarks from like facilities, where available;
- Actual performance compared to acceptable standards and ranges; and
- Variances to the above, with management's explanation of significant variances.

8.3.2 Performance Reporting

Perley Health Management has established a Performance Monitoring Framework, both for the use of Management and for reporting to the Board. It is built upon the major strategies of the Strategic Plan. Indicators under each strategy are reviewed and refreshed as required.

8.3.3 The Board's Use of Performance Monitoring Reports

The Board's principal fiduciary responsibility is overseeing how well Perley Health is accomplishing its mandate and mission. The Board needs information to do that, and it must ensure that it is receiving reliable and sufficient information to discharge its responsibilities.

What is the Board to do as a consequence of the information it receives? For example, the Board must respect the line between the Board's role and executive management's role. The CEO is expected to take corrective action to address operational performance problems. The reality is that the Board may not be in a position to know what corrective action is needed. In certain circumstances, the Board may conclude that there is

urgency and imminent potential damage to the organization and may direct corrective action itself. (However, care must be taken to ensure that organizational priorities and opportunities are not lost in the process.)

Where the available information suggests a performance problem related to its own effectiveness, the Board must take its own action. In some cases, the Board might also feel the need to get directly involved about urgent matters related to external relations and major strategic direction programs (such as the creation of the Seniors' Village). If the Board decides to intervene directly, it should ensure that it is focusing on a potentially systemic problem or something posing a significant potentially damaging situation to the corporation, and not simply anecdotal feedback.

Where performance is consistently positive, the Board should find ways to acknowledge and reinforce good performance.

8.3.4 Reviewing Performance Management

Regular review of Perley Health's performance management system is essential to sound stewardship. As discussed, currently, this includes quarterly, and annual operational performance reports. Additionally, the Board should review the performance monitoring criteria outlined in Accreditation Canada's Governance Standards. Finally, in Appendix A to this Chapter there is a Review Checklist for Performance Monitoring System for assessing the fulfillment of the Board's responsibilities for performance management.

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**Appendix A
to Chapter 8 of the Addendum**

**Review Checklist for
Performance Monitoring System**

1. The Board is satisfied that Perley Health has in place effective systems for the performance monitoring, analysis and reporting of all aspects of corporate performance including:
 - a. Fiduciary obligations;
 - b. Strategic planning;
 - c. Executive performance;
 - d. Resident and client well-being and satisfaction;
 - e. Financial health;
 - f. Resource stewardship;
 - g. Risk management;
 - h. Stakeholder relations; and
 - i. Board governance.
2. Perley Health seeks performance feedback from all major stakeholder groups (including clients and residents, staff and volunteers, elected and government officials, evaluators engaged in inspection, accreditation and certification processes.)
3. With respect to the many aspects of Perley Health's performance monitoring system's subcomponents:
 - a. Processes are well documented and understood by those using these systems;
 - b. Findings are systematically recorded and analyzed;
 - c. Variances from expected performance are explained;
 - d. Results and recommendations are summarized and reported to the Board by senior management.
4. Management has adequate resources for implementing and maintaining an appropriate level of organizational performance monitoring.
5. The Board assesses the product of the performance monitoring system against the backdrop of an up-to-date environmental scan.
6. The Board has effective means for:
 - a. Integrating performance information from the multiple governance and management perspectives of the organization;
 - b. Evaluating the effectiveness of the performance monitoring system in fulfilling the mission, vision and strategic objectives of the corporation; and
 - c. Evaluating the consequent outcomes in meeting community requirements.
7. The Board uses performance monitoring information in its strategic planning and decision making to improve future performance.

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8. The Board relies on a blend of quantitative measures and qualitative feedback in assessing the efficiency and effectiveness of Perley Health's Performance Monitoring System.
9. The Board regularly:
 - a. Reviews and evaluates the relevance and reliability of the performance measures being monitored by management and reported to the Board; and
 - b. Reviews the adequacy of its own performance evaluation processes (including those for collective Board and Committee evaluations, Chair and Committee Chair evaluations, and assessments of individual members' performance).
10. The Board seeks continual improvement in the effectiveness of Perley Health's performance monitoring system.

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