# Corporate Governance Practices: an Exploratory Study of the U.S. Nonprofit Healthcare Sector

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## *Abstract*

*In recent years, corporate governance in the U.S. has received a significant amount of attention in the nonprofit sector because of several major high-profile accounting scandals. Consequently, both professional and political groups are calling for a higher level of accountability and transparency, especially in the nonprofit healthcare sector. Before such actions are taken, policymakers and other interested groups should give consideration to the current status of corporate governance. This paper reports the results of a descriptive study that assesses the extent that U.S. nonprofit hospitals have adopted corporate governance practices, and identifies the type of governance techniques that represent "best practices". The findings should provide a basis for nonprofit hospital management and their governing boards to assess the quality of their own system of corporate governance.*

**Key Words:** Corporate governance, nonprofit organizations, nonprofit hospitals, nonprofit governance.

## *Introduction*

In recent years, corporate governance has received a significant amount of attention due to the unprecedented number of high-profile corporate accounting scandals such as Enron, WorldCom, Aldelpha and Parmalat. While most of the publicity has focused on the business sector, the nonprofit sector has also had its share of scandals, which include well-known organizations such as the United Way of America, Goodwill Industries, Head Start, American Cancer Society, Feed the Children and others.[1]

In response to such scandals, public policy makers and other stakeholders in the nonprofit sector are calling for a higher level of scrutiny. Federal and state policymakers have responded with governance reforms that attempt to enhance nonprofit organizational accountability (Vermeer, et al, 2006). These actions have resulted in some members of Congress and state attorney generals suggesting that additional provisions of the Sarbanes-Oxley Act (SOX) should be extended to the nonprofit sector. The State of California has already imposed many SOX-like provisions on California nonprofits (Jackson and Fogarty, 2006).

[1] Others would be the American Red Cross, New Era Philanthropy, the 2002 Olympic Games Organizing Committee, the Nature Conservancy, Whitney Museum of American Art, and Feed the Children (Ebrahim [2003]; Miller [2002]; Pridgen and Wang [2006]; Jackson and Fogarty [2006]).

Even the Internal Revenue Service (IRS) is beginning to focus increased attention specifically to corporate governance of nonprofit hospitals (Peregrine, 2007).

### *Purpose of the Study*

To date, studies investigating the adoption of corporate governance policies/procedures have focused primarily on the business sector.[2] Consequently, there is little empirical evidence from the U.S. nonprofit sector regarding corporate governance practices. To fill this research void, we undertook an exploratory study that addressed two questions: (1) whatcorporate governance policies/procedures are most often adopted by nonprofit organizations, and (2) what is the relative adoption preference exhibited by nonprofit management across an array of corporate governance policies/procedures. While this study is descriptive in nature, it represents an initial research step that will aid in crystallizing the current state of corporate governance in the U.S. nonprofit sector, and provide evidence relating to the governance adoption preferences of nonprofit management. Moreover, the results should prove fruitful for developing hypotheses or some investigative questions for further research.

### *The Survey*

In our study, U.S. nonprofit hospitals were selected because of their size and economic importance. Healthcare organizations represent the largest industry within the U.S. nonprofit sector, and are responsible for generating over half of all nonprofit sector revenues (Finkler, et al, 2013).Moreover, the national healthcare spending grew from $42 billion in 1965 to $2.7 trillion in 2012, and is projected to reach $4.7 trillion by 2021 (Granof, et al. 2013). Thus, healthcare organizations have a significant impact on the U.S. economy. Given the importance of hospital services and the enormous size of the industry, adopting corporate governance practices that improve the quality of operations and provide economic benefits should be fundamental to the industry's continued financial viability.

To evaluate the extent to which nonprofit hospitals have adopted corporate governance policies/procedures, a survey was administered during the spring of 2009. A questionnaire listing 42 governance procedures were mailed to a sample of 272 hospitals. The selected hospitals were listed on Bloomberg as having bond issues during the period 2007-2008. For an item to be included in the questionnaire, it had to be cited in the governance literature as an item that should improve governance oversight. Table 1 shows the 42 corporate governance items selected for inclusions in the survey questionnaire.

The survey instrument required respondents to indicate whether or not each governance item was being used by their respective hospital. After an initial and follow-up mailing, 45 useable responses were received resulting in a total response rate of 17%.[3]Although this response rate may appear to be low, the important issue is the possibility of nonresponse bias that results if the returns are not representative of the original sample drawn. A statistical test for nonresponse bias indicated that nonresponse bias was not present in the survey results.

### *Respondent Demographics*

Once the survey questionnaires were received from the selected nonprofit hospitals, certain demographic information on each responding entity was obtained from the GuideStar data base. GuideStar did not contain data for six of the 45 responding hospitals. Consequently, our analysis is based on 39 useable respondents.

Demographic data on the hospitals are presented in Table 2. The data show the organizations' size, its service area location, the organizational position of responding officers and the number of directors serving on their respective boards. Note that the average total assets were $438,044,253. This high average was influenced by a few very large hospitals. A count revealed that only 18% of the organizations had total assets above the average, with 82% below that mark. While not shown, the median size hospital reported total assets of $64,889,052. The large variation among the respondent organizations' size is more apparent when comparing the high ($438,044,253) and low ($1,072,338) total assets.

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[2] See for example, Sengupta (1998), Bhojraj and Sengupta (2003), Yermack, (1996), Karpoff, et al (1996), Gompers, et al (2003), and Ashbaugh-Skaife, et al (2006).

[3]Although this response rate may appear to be low, Oppenheim (1966) points out that the important issue is not the response rate itself, but the possibility of nonresponse bias that results if the returns are not representative of the original sample drawn. A test for nonresponse bias was made by applying an early/late methodology. A Pearson chi-square test of association indicated that nonresponse bias was not significant at the .05 level.

The size of the board of directors seems to be somewhat related to the size of respondent organizations. Table 2 shows that approximately 15% of the hospitals maintain a large board of directors (21 members or more), with 85% having a smaller board. In terms of the type of service area where respondents operate, they seem to be approximately equally apportioned. Fifty-four percent (54%) provide services to rural areas, while 46% are located in metropolitan areas.

Also the qualifications of the individuals who completed the questionnaire are presented in Table 2. The respondent's job title was used as a surrogate measure of his/her educational and professional experience. As indicated, approximately half (51%) of the responding officers hold the title of Chief Financial Officer (CFO). The other 49% also represent individuals holding very high official positions within their respective hospitals.

## *Survey Results and Analysis*

The primary objective of this study is to assess the extent that nonprofit hospitals have adopted corporate governance policies/procedures. Descriptive statistics are used to analyze the data and are presented in Table 3. The extent that governance policies/procedures have been adopted is measured by calculating the percentage of positive responses for each governance item across all respondents. Based on the relative percentages, items are ranked from most to least adoption. To facilitate our discussion of the findings, the items are grouped into four adoption categories: High Adoption, Moderately High Adoption, Moderate Adoption, and Low Adoption. Although all items are not discussed individually, an item-by-item examination of the results should provide an improved understanding of the extent selected corporate governance policies/procedures have been adopted.

The descriptive statistics presented in Table 3 indicate that the responding hospitals had an overall average adoption rate of 73.9% for the items used in this study. Because Item 42, "A Mandatory Retirement Age for Directors", had a significantly low adoption rate (6%) relative to all other items, we calculated an adjusted average that excluded that item. The adjusted average rate of adoption improved slightly to 75.5%. While this overall adoption rate is good, what stands out is the high adoption rate of the top half of the items. It appears that there may be a priority ranking by hospital management. The top half of the items (items 1 through 21)have an average adoption rate of 86.8%. The lower half of items has an average adoption rate of only 61.0%. For example, administrators must believe it is extremely important to have the CEO and board chairman duties be separated (Item 1) as opposed to having a formal policy on auditor rotation (Item 41).The good news is that both statistics seem to indicate that nonprofit hospitals are actively engaged in improving their corporate governance structure.

### High Adoption

Seven items make up the High Adoption Rate category. Here we have an average adoption rate of 93.7. Items 2, 3, 4 and 5 have the most common adoption rate of this category at 94%. An interesting observation for these seven items is that they generally relate to high-level officials/board operations and are broadly accepted by organizations in the profit sector. Moreover, items 1, 4, 5, 6, and 7 all relate to senior management and/or the governing board.

The policy adopted by the highest number of respondents (96%) was Item 1, which asked if the hospital had adopted a policy that specifically separates the CEO and board chair duties. In corporate America, it has been stated that CEO and board chair role separation may not constitute a significant corporate governance change. Consequently, corporations are taking such roll separation slowly. In contrast, it appears that the nonprofit sector believe that having the two rolls clearly defined and separated significantly enhances the organization's ability to fulfill its fiduciary duties.

Table 3 shows that 94% of responding hospitals do not allow non-employees to participate in the organization's pension plans (Item 2). While this policy tends to be somewhat general in its description ("non-employees"), it is intended to preclude Board members from participating in the organization's retirement program. Item 3 asks about a "whistle blower" program. At an adoption rate of 94%, this policy provides for a confidential system for employees to communicate concerns regarding suspected fraudulent activities. Top management obviously perceives that an active "whistle blower" program to be an important corporate governance policy.

Ninety-four percent of respondents also report that their hospital has a board appointed audit committee or its equivalent (Item 4), and that senior financial management has adopted a code of ethics and methods to ensure compliance (Item 5). Such high adoption rates for these two items are not surprising.

It is common knowledge that an effective audit committee can increase the integrity and efficiency of the audit process, as well as the system of internal controls and financial reporting, an outcome that is highly desirable by nonprofit CEOs and boards. Observe that the adoption of a written code of business ethics for senior managers and other employees is required for corporate organizations under the Sarbanes-Oxley Act. While this requirement is not applicable to nonprofit organizations, the high response rate for Item 5 seems to indicate that hospital executives and their directors understand that the existence of a formal code of ethics is the foundation for developing an ethical culture that supports a comprehensive ethical program for their organizations.

At the lower end of the “High” adoption category is Item 6, “Having Over 50% Independent outside Directors”, and Item 7, “Organization Does Not Provide Loans to Executives or Board Members”. Both items have an adoption rate of 92%. A key attribute of an effective board is that it is comprised of a majority of independent outsider directors. Such a Board member is an individual who is not employed by or engaged with the hospital, and does not represent any of its stakeholders. Having a majority of independent directors makes the board more independent and allows it to provide a higher level of corporate governance. Also, board independence can be impaired in instances where the organization gives loans to board members. The high adoption rate for Item 7 implies that hospital management understands that giving loans to board members and executives can create both real and perceived problems.

**Moderately High Adoption**

The Moderately High Adoption Rate category is populated by 13 governance items. This is the largest category and has an average adoption rate of 83.7%. The adoption rates for the13 items range from a high of 88% to a low of 80%. However, observe that there is a clustering of most items at two levels. Items 10 through 13 have an adoption rate of 86%, while items 17 through 20 have an adoption rate of 80%. Most of the items in both clusters are similar because they relate to top levels of organizational authority. That is, the governance procedures/policies focus on senior executives or directors.

The two highest adopted governance procedures/policies (88%) are Items 8 and 9, “No former CEO of your organization serves on the board of directors”, and “The organization has a document destruction policy”. The high adoption rate for these two items was not expected. For instance, most boards recognize that inviting the former CEO to stay on the board as a director (Item 8) can result in unfavorable consequences, especially if the former CEO exploits his/her board position for personal benefits or inhibits value-maximizing strategies. Also, having a written retention/destruction policy (Item 9) provides guidance to employees relative to which documents to retain and for how long. It is generally understood that such a policy is not only a prudent practice but also sound risk management. Moreover, the IRS asks about document retention policies on the Form 990.

Items 10 to 13 have adoption rates of 86%. Section 302 of the SOX Act requires the CEO and CFO of publicly traded companies to certify that the financial statements have no material misstatements or omissions and they have evaluated disclosure controls and procedures (Item 10). Even though SOX is not applicable to the nonprofit sector, we expected that most hospitals surveyed would have adopted Item 10 because CEOs and CFOs of nonprofit hospitals already provide such assurances to the independent auditor in the auditor’ Management Representation Letter. Moreover, they frequently attach a Management’s Responsibility for Financial Reporting Letter in the organization’s annual report.

A whistleblower policy (Item 12) establishes a procedure for individuals to report complaints about illegal or unethical conduct occurring at an organization without fear of retaliation. Such a policy is required by SOX, but is not applicable to nonprofits entities. Because of the important protection a whistleblower policy offers to employees, we found that most all (86%) of the respondents have adopted such a policy. It is important to note that more hospitals have adopted a formal notification system (item 3 which has a 94% adoption rate) than have adopted a formal whistleblower policy.

Items 13 and 15 relate to board appointed committees. Table 3 shows that 86% of hospitals responding to the survey have boards that have established a nominating committee. This committee is appointed by the board chairperson and is responsible for identifying and recommending candidates with the best qualifications for election to the Board of Directors, and for identifying directors willing to serve as officers. In contrast, 82% of responding hospitals have an established audit committee. While this is a relatively high adoption rate, we are somewhat surprised that it is not higher, given the fact that the audit committee is at the core of the financial reporting process for any organization.

The basic responsibilities of the audit committee include adopting a charter, monitoring the reporting process, overseeing the outside auditor, and paying attention to management and employees.

The second clustering includes Items 17 through 20, with an adoption rate of 80%. A compensation committee (Item 17) is usually a small committee that is tasked with setting the policies for total compensation of the staff and then reviewing and setting compensation on an annual basis. In recent years we have seen increased scrutiny by government agencies and donors of expenditures for compensation, and more use of complex benefit programs. Consequently, the use of a compensation committee is gaining popularity. A compensation committee can ensure that the board fulfills its fiduciary obligations in establishing and overseeing a compensation program. We speculate that the adoption rate for Item 17 will increase substantially in the future as more nonprofit boards establish compensation committees.

Table 3 shows that 80% of the respondent hospitals have boards where all directors have prior relevant business experience (Item 20). It is most beneficial to have directors that provide appropriate industry experience, CEO experience, and other experience relevant to the organization's operations. Given the importance of healthcare and the complexity of the industry, we anticipated that a high percentage of responding hospitals would have directors possessing relevant experience. However, at 80% there is room for improvement.

**Moderate Adoption**

The ten items classified in the Moderate Adoption category report adoption rates ranging from a high of 78% to a low of 71%, with an average adoption rate of 73.4%. Observe that the average adoption rate for all 42 items is also 73%. Also note that Item 25, "Governance committee meets at least once during the year", has an adoption rate of 73%, exactly equal to the Moderate Adoption category's average adoption rate.

Item 21, "The firm has a formal governance policy", had an adoption rate of 78%. While this item had the highest adoption rate in this category, we were very surprised that it was only moderately adopted. We anticipated that organizations that have a number of governance procedures/policies would have the procedures/policies documented in a formal structure.

As we move down the list of moderately adopted governance policies, we see that Items 23 and 24 relate to the hospital's financial audit by independent outside auditors. Item 23 requires at least one member of the audit committee to be an independent financial expert, such as a CPA or CFO. This governance provision was adopted by only 76% of the respondents. In the for-profit sector, this item is a requirement according to the Sarbanes-Oxley Act.

An integral part of any financial audit is to perform an assessment of the organization's internal controls. It is generally understood that having strong internal controls is paramount to developing a good corporate governance structure. Yet, Item 24, "The organization documents and evaluates internal controls over a planned time period", reports an adoption rate of only 76%. This finding is certainly surprising and somewhat disappointing. Observe that 50% of the Moderate Adoption items are clustered together at the bottom of this category, with adoption ratings of only 71%. This includes Items 26 through 30.

Item 26, "Outside directors meet without the CEO", and Item 27, "Compensation committee is comprised solely of independent outside directors", both deal with certain activities of outside directors. Outside directors are non-employee directors of the Board. A good corporate governance practice is for outside directors to meet at least once a year in executive session without management. However, only 71% of the surveyed respondents indicated in the affirmative. Further, compensation committee board members should not only be outside Board members, but should also be independent. In the corporate sector, it is required that the independence of compensation committee members be determined by the full Board. It is surprising that only 71% of the respondent hospitals had a compensation committee consisting of solely independent outside directors.

Item 28, "The CEO does not chair the board or serve on a board committee", addresses a fundamental concern that too much power could be concentrated in one position and the nonprofit board would be less able to fulfill its fiduciary duties as a result. In the nonprofit sector, it is considered a "best practice" to not allow the CEO to fill the role of Board Chair. Observe that this governance practice is not being followed by 29% of the respondents.

Survey subjects were asked if their hospital Audit Committee had a charter that includes role and authority language (Item 29).

The American Institute of Certified Public Accountants (AICPA) states that adopting and maintaining an audit committee charter is a "Best Practice" for nonprofit organizations. The AICPA also points out that a few states have made it mandatory that nonprofit organizations have a charter for their audit committee.

Given the high level of importance of Item 29, we are surprised that only 71% of respondents indicated that their audit committee had a charter. Finally, the last item in this category, Item 30, addresses the need to have a formal plan of risk management. For hospitals, a risk management plan is a program for risk management and safety initiatives pertaining to clinical risk and patient safety as well as visitor, third party, volunteer, and employee safety and potential business, operational, and property risks. The survey reports that 71% of responding organizations have adopted and implemented a formal risk management plan.

**Low Adoption**

All items that received an adoption rate below 70% are reported in Table 3 under the category of "low adoption". Twelve items met this requirement. The rates range from a high of 67% to a low of 6%, with an average adoption rate for the category of 52.1%. However, Item 42, having a mandatory retirement age for directors, was reported by only 6% of the respondent organizations. This item's low adoption rate appeared to be an outlier. By removing this item, the average adoption rate for the Low Adoption category increased by 4.2%, to 56.3%.
Item 31 addresses the question as to whether the board of directors has a formal program of self-evaluation. Such an evaluation process can help governing Boards determine how well they are carrying out their responsibilities and identify strategies to develop areas that need improvement. Moreover, it provides the opportunity to develop the Board's team building skills, provides a structure for problem solving, and increased accountability within the organization. Table 3 shows that only 67% of the respondent hospitals have formal self-evaluation process in place. This finding is disappointing.

The issue of board members being major financial contributors to the nonprofit hospital is addressed in Item 32, "No director is a major financial contributor to the organization". Unlike the role of for-profit board members, the nonprofit board director is expected to participate in fundraising. Consequently, an appeal for contributions is particularly convincing if a board member uses him/herself as an exemplary donor. Financial contributions made bya board member signals the member's commitment, and gives the board member a sense of investment in the organization. Sixty-five percent of the respondents indicated that no director of their organization was a major financial contributor. However, that does not mean that board members were not participating to some degree in the fundraising activity. Interestingly enough, in a 2007 national survey, Board Source (http://www.boardsource.org), it was reported that 55% of nonprofit boards have a requirement that members make a financial contribution each year.

Items 33 through 37 relate to Board activities or responsibilities. Items 33, 34 and 35 all have adoption rates of 59%, while Items 36 and 37 have a slightly lower adoption rate of 57%. Item 33 questions the independence of Board members on the nominating committee, and Item 34 investigates whether the Board has appointed a governance committee. A major task of the corporate governance committee is to develop and periodically review and assess a set of corporate governance guidelines applicable to the organization and make appropriate recommendations to the Board for adoption and, where appropriate, modification of such principles. Given the importance of this committee, it is surprising that only 59% of the respondents answered in the affirmative. Of equal concern is the fact that only 59% of the respondents had a formal internal audit function (Item 35).This low rate is disconcerting because the internal audit function provides an independent and objective appraisal of an organization's existing procedures and activities, and, when appropriate, the internal auditor will recommend changes for consideration by the board.

Items 38 through 42 relate to Board or organizational operating activities. In general, these five lowest rated items are not representative of critically important governance policies. Consequently, it is not surprising to see adoption rates ranging from55% to a low of 6%. Item 42, for example, would require an organization to adopt a mandatory retirement age policy for its board of directors. Ninety-four percent of respondents have not adopted this type of governance policy. The concern here is that such a policy might create an obstacle for maintaining the services of desirable outside directors. This is especially true because long-tenured board members have become highly desirable for their knowledge, experience, and understanding of the hospital's operations.

## *Summary and Conclusions*

The topic of corporate governance has received widespread attention in recent years. This is due to the unprecedented number of high-profile accounting scandals occurring in both the for-profit and nonprofit sectors of the U.S. economy. The general belief is that having a good corporate governance structure integrated throughout an organization's operations will enhance its oversight and transparency.

In the business sector, there has been considerable progress made by requiring companies to adopt certain corporate governance policies/procedures. SOX was a major step in that direction. However, this has not been the case in the nonprofit sector. Consequently, various groups, both professional and political, are calling for substantial reforms.

Before any action is taken, however, policymakers and other interested groups should give consideration to the current status of corporate governance in the nonprofit sector. Unfortunately, there is little empirical research that addresses the issue of corporate governance adoption in nonprofit organizations, especially in the U.S. healthcare industry. In the current study, we investigate the extent to which nonprofit organizations have adopted corporate governance policies/procedures. Our study focuses on nonprofit hospitals. In general, the results indicate that such nonprofit organizations are not fully adopting a wide array of governance policies/procedures, and that more improvement is desirable. However, although the overall adoption rate is somewhat low at 73.9%, we see that 20 of the governance policies/procedures have significantly high adoption rates, ranging from 80% to 96%. This implies that U.S. nonprofit hospital administrators seem to prioritize governance policies/procedures based on a perceived value, and adopts the items accordingly.

The results of this study should be of interest to those who are concerned with ethics and corporate governance in the nonprofit area, especially those who participate in public policy-making. For instance, items that are deemed to be important governance techniques but are not being voluntarily adopted should be considered when promulgating new state and Federal financial legislation for nonprofit organizations. Such consideration is necessary if nonprofit organizations are to increase their level of oversight and transparency. If improved corporate governance is to be achieved, then policy-makers must be cognizant of current deficiencies in corporate governance adoption and take corrective action through the policy-making process.

**Table1: Selected Corporate Governance Items**

1. Outside directors meet without the CEO
2. A board-approved CEO succession plan is in place
3. Board nominating committee is comprised solely of independent outside directors
4. Compensation committee is comprised solely of independent outside directors
5. The Board has appointed a compensation committee
6. Board membership consists of over 50% independent outside directors
7. Your organization has a formal policy on auditor rotation
8. A mandatory retirement age for directors exists
9. Governance committee meets at least once during the year
10. The Board has appointed a governance committee
11. Board members are elected annually
12. A majority vote is required to amend charter/bylaws (not a supermajority)
13. The CEO and board chairman duties are separated
14. Audit committee consists solely of independent outside directors
15. A simple majority vote is required to approve a merger (not a supermajority)
16. No former CEO of your organization serves on board
17. Size of board of directors is a least six but not more than 15 members
18. Organization does not provide any loans to executives or board members
19. All directors attended at least 75% of board meetings
20. CEO serves on no more than two additional boards of other organizations
21. Non-employees do not participate in organization's pension plans
22. No interlocks exist among directors on the compensation committee
23. No director is a major financial contributor to the organization

24. At least one member of the Audit Committee is an independent financial expert
25. The firm has a formal governance policy
26. The CEO does not chair the board or serve on a board committee
27. There is an internal audit function
28. The organization prohibits its independent auditors from providing non-audit services
29. The audit committee takes responsibility for appointing and setting the compensation forthe audit firm
30. Senior financial management has adopted a code of ethics and methods to ensure compliance
31. The organization has a confidential complaint system available for employees to communicate concerns about accounting, auditing, internal control processes, or suspected fraudulentactivities
32. Senior management is required to certify that the financial statements have no materialmisstatements or omissions and they have evaluated disclosure controls and procedures
33. The organization documents and evaluates internal controls over a planned time period
34. The board has appointed an audit committee or its equivalent
35. The audit committee has a charter that includes role and authority language
36. The organization has a formal policy protecting whistleblowers
37. The organization has a document destruction policy
38. The Board has a nominating committee
39. All Board members have prior relevant business experience
40. The Board has a formal plan of risk management
41. The functions delegated to management and those functions reserved to the Board are formally documented
42. The Board has a program of self-evaluation of its effectiveness

**Table 2**: **Demographic Data-Responding Healthcare Organizations**

| **Organization Size:** | Average | Minimum | Maximum |
|---|---|---|---|
| Total Assets | $ 438,044,253 | $ 1,072,338 | $ 4,721,790,526 |
| | | | |
| | | Respondents Number | Percentage |
| **Organization Location:** | | | |
| Rural | | 21 | 54% |
| Metropolitan | | 18 | 46% |
| | | 39 | |
| | | | |
| **Position of Respondents:** | | Respondents Number | Percentage |
| CFO | | 20 | 51% |
| Executive Director | | 2 | 5% |
| Controller | | 3 | 8% |
| VP & Controller | | 1 | 3% |
| General Counsel | | 2 | 5% |
| Director of Finance | | 3 | 8% |
| COO | | 1 | 3% |
| Senior VP & CFO | | 4 | 10% |
| CEO | | 1 | 3% |
| CFO & Treasurer | | 1 | 3% |
| President & CEO | | 1 | 3% |
| | | 39 | |
| | | | |
| **Size of Board of Directors:** | | Respondents Number | Percentage |
| Less than 10 | | 9 | 23% |
| 10 to 15 | | 20 | 52% |
| 16 to 20 | | 4 | 10% |
| 21 to 25 | | 4 | 10% |
| Over 25 | | 2 | 5% |
| | | 39 | |

**TABLE 3**
**Governance Items Ranked by Adoption Rate**

| Rank # | HIGH ADOPTION RATES | % |
|---|---|---|
| 1 | The CEO and board chairman duties are separated | 96 |
| 2 | Non-employees do not participate in organization's pension plans | 94 |
| 3 | The organization has a confidential complaint system available for employees to communicate concerns about accounting, auditing, internal control processes, or suspected fraudulent activities | 94 |
| 4 | The board has appointed an audit committee or its equivalent | 94 |
| 5 | Senior financial management has adopted a code of ethics and methods to insure compliance | 94 |
| 6 | Board membership consists of over 50% independent outside directors | 92 |
| 7 | Organization does not provide any loans to executives or board members | 92 |
| | **MODERATELY HIGH ADOPTION RATES** | |
| 8 | No former CEO of your organization serves on board | 88 |
| 9 | The organization has a document destruction policy | 88 |
| 10 | Senior management is required to certify that the financial statements have no material misstatements or omissions and they have evaluated disclosure controls and procedures | 86 |
| 11 | No interlocks exist among directors on the compensation committee | 86 |
| 12 | The organization has a formal policy protecting whistleblowers | 86 |
| 13 | The Board has a nominating committee | 86 |
| 14 | A majority vote is required to amend charter/bylaws (not a supermajority) | 84 |
| 15 | Audit committee consists solely of independent outside directors | 82 |
| 16 | The functions delegated to management and those functions reserved to the Board are formally documented | 82 |
| 17 | The Board has appointed a compensation committee | 80 |
| 18 | All directors attended at least 75% of board meetings | 80 |
| 19 | The audit committee takes responsibility for appointing and setting the compensation for the audit firm | 80 |
| 20 | All Board members have prior relevant business experience | 80 |
| | **MODERATE ADOPTION RATES** | |
| 21 | The firm has a formal governance policy | 78 |
| 22 | Size of board of directors is a least six but not more than 15 members | 76 |
| 23 | At least one member of the Audit Committee is an independent financial expert (being a CFO or CPA) | 76 |
| 24 | The organization documents and evaluates internal controls over a planned time period | 76 |
| 25 | Governance committee meets at least once during the year | 73 |
| 26 | Outside directors meet without the CEO | 71 |
| 27 | Compensation committee is comprised solely of independent outside directors | 71 |
| 28 | The CEO does not chair the board or serve on a board committee (audit, compensation, etc) | 71 |
| 29 | The audit committee has a charter that includes role and authority language | 71 |
| 30 | The Board has a formal plan of risk management | 71 |
| | **LOW ADOPTION RATES** | |
| 31 | The Board has a program of self evaluation of its effectiveness | 67 |
| 32 | No director is a major financial contributor to the organization | 65 |
| 33 | Board nominating committee is comprised solely of independent outside directors | 59 |
| 34 | The Board has appointed a governance committee | 59 |
| 35 | There is an internal audit function | 59 |
| 36 | A board-approved CEO succession plan is in place | 57 |
| 37 | A simple majority vote is required to approve a merger (not a supermajority) | 57 |
| 38 | Board members are elected annually | 55 |
| 39 | The organization prohibits its independent auditors from providing non-audit services | 51 |
| 40 | CEO serves on no more than two additional boards of other organizations | 49 |
| 41 | Your organization has a formal policy on auditor rotation | 41 |
| 42 | A mandatory retirement age for directors exists | 6 |

| | |
|---|---|
| Average Adoption Rate | 73.9 |
| Adjusted Average Adoption Rate | 75.5 |

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