

Choosing Wisely: Succession Planning for a Down-sized Board

by Barry S. Bader and Pamela R. Knecht

Several events can lead to a decision to down-size a board. In some cases, the trigger is a merger or an acquisition in which seating all legacy directors would result in a large, unwieldy board or produce an imbalance favoring one of the combining parties. In other cases, a large board simply decides its present size is an impediment to efficient and effective governance.

Governance experts generally recommend that not-for-profit hospitals or health systems aim for a board size of 11 - 17 members. That range is small enough to run productive meetings and make decisions efficiently, but large enough to encompass the range of competencies and diversity desired for effective governance. According to the latest AHA survey of hospitals and health systems, the average sized board is about 12 and 68% have between 6 and 18 members, but many are larger, ranging as high as 65 members (according to survey respondents).

The challenge of determining who stays and who goes is inherent in down-sizing a board. It's a task no one relishes, especially on volunteer boards populated by friends and colleagues dedicated to their communities and institutions. Therefore, down-sizing wisely demands courageous and selfless leadership.

A board down-sizing requires leadership by principled peers who are entrusted with choosing who among current board members will be part of the organization's governance in the future, and who will not. Choosing those with the right subject matter knowledge, perspectives and skills is important to the organization's future success. Board members who are not selected also may suffer a sense of loss and even resentment about leaving the organization at a time of significant change.

Effective down-sizing practices

Down-sizing may be a discrete task, or it could be one part of a comprehensive governance assessment and redesign initiative that examines board structure, role and responsibilities, composition, policies and practices. In the authors' experience guiding various boards through assessments and down-sizing processes, the following practices can contribute to a successful board down-sizing initiative.

1. **Recognize that down-sizing is a change process.** It provokes deep emotions because fellow trustees have served with dedication and sometimes distinction – no one relishes the prospect of delivering pink slips to peers. A well-designed down-sizing process recognizes the human dynamics involved and applies proven principles for a successful change process:
 - Those affected by the change are involved in the process in a meaningful way.
 - The case for change is compelling, understood and supported by those affected.
 - The process for making decisions is transparent and the criteria for decision making are mission-based and meritorious, not arbitrary or biased.
 - Sufficient time is provided to enable those affected to go through the stages of change which may include denial, anger, resistance, bargaining, acceptance and – eventually – support.
2. **Assign responsibility for developing down-sizing recommendations to a board committee or task force with solid credibility.** Systems with large boards may utilize an existing

Governance Committee or carefully select a Governance Task Force to develop a down-sizing plan to present to the full current board(s) for approval. In a down-sizing coincident with a merger, the joint merger committee or a sub-committee of trustees would fill this role. (For simplicity, this commentary will just refer to a "governance task force" to represent the various options for a group steering the down-sizing process.)

Perceptions are important: the chairperson and members of a governance task force charged with formulating the down-sizing plan should be respected for their independence and commitment, and they should be broadly representative of or credible to the stakeholders affected (e.g., system board, subsidiary boards, foundation board, merger partners).

The governance task force should be comprised only of board members (and the CEO) and it should include individuals who are new to the board(s) as well as those who can provide institutional memory and a deep understanding of the boards' and community's culture. If one of the organization's strategic initiatives is to increase alignment with a key stakeholder group (e.g., physicians in a hospital), it may be wise to include a few of those stakeholders on the governance task force.

Recognize potential conflicts of interest in choosing governance task force members. The members of the governance task force may include senior board leaders who are obvious candidates for the successor board. Generally, these

individuals enjoy such high respect among peers that this “conflict” is acceptable. However, if there is sensitivity that committee or task force members will stack the deck for themselves and allies, one option is a “Blue Ribbon Committee” of respected individuals who take themselves out of the running for membership on the new board(s).

3. **Develop a compelling case for change – focus on the positive impact, anticipate some resistance and prepare responses.**

A successful down-sizing builds on a consensus that the present board or a proposed post-merger board is too large to be effective. The “case” for down-sizing should be committed to writing and include the positive impact a smaller board has on:

- Timely deliberation and decision making in a complex, fast-paced environment
- Active participation by all board members at meetings
- Number and size of committees needed to keep all board members engaged
- Respectful and productive use of board members’ time, whether volunteer or compensated

- Management staff time required to keep all members and committees informed.

Mergers add other dynamics. If legacy boards are simply combined, the “Newco” board will start off large and lack seats to recruit new members who bring needed skills or come from key constituencies. Further, if a “merger of equals” is intended, then combining two legacy boards of unequal sizes into the “Newco” board will give one party more seats and could lead to perceptions of a takeover.

Although the benefits of down-sizing may be readily evident to some or even most trustees, a mixture of reluctance, rationalization and resistance are likely. Some may argue “our size isn’t a barrier,” or “we need a large board to staff our committees,” or “current members are invaluable,” or simply, our community is “different.” The governance task force and the board each need a chance to talk through these objections and coalesce around the case for down-sizing. A board retreat can be helpful to offer education on governance best practices, discuss the case for change, recognize and respond to concerns, and give the need for

down-sizing sufficient “soak time” to gain broad acceptance.

4. **Base down-sizing decisions on objective, competency-based criteria that identify the areas of knowledge, skills and personal attributes that will be needed on the new board.** For a hospital or an integrated, accountable health care system, the criteria should include:

- Core subject matter competencies such as finance, quality, medicine and health, strategic planning, audit and compliance, health care management and executive leadership
- Leadership skills such as strategic thinking, team work, relationship building, communications and objectivity in decision making
- Knowledge and skill areas pertinent to future needs, such as competence in cultural transformation, mergers and acquisitions, industry change, population health, advanced quality improvement, enterprise risk management and new applications of information technology.

Generally, objective competencies are more important than “representation” in constituting a governing body. When organizations merge, it’s important to move from “us and them” to “we” culture as quickly as possible. That said, boards should recognize the value of diversity and a voice for important stakeholders such as different geographic communities, religious faiths and population groups. They should also try to avoid “representational governance” in concept because too often, those board members “representing” particular groups place too much emphasis on that role, at the expense of their fiduciary duty to the overall mission of the entity.



To promote transparency, the full board should be asked to approve the selection criteria and the process that the governance task force will use to apply the criteria in formulating a proposed slate of nominees for the down-sized board. However, the subsequent assessment of individuals and discussion of the proposed slate should remain confidential within the task force.

5. **Assess the present board: Consult with current members to ask for their confidential assessment of their peers' competencies, and to ascertain their interest in serving on the new board.** The governance task force may use personal interviews, a written survey or a combination of the two to obtain current members' input. Although difficult to do and sometimes omitted, engaging trustees in the competency-based assessment that is the foundation for down-sizing decisions will build credibility and incorporate trustees' personal aspirations into the decision making. The governance task force also should give significant weight to how the board chair and CEO, respectively, assess each member's strengths because they may see individual contributions that are not evident to other trustees. The full board should see an aggregate report of the assessment process, for example how many trustees are perceived to be strong in finance or change management, and whether the board is short on certain key knowledge and skill areas. However, what is said about each member should remain confidential. Leaks will be damaging.

6. **Decide on the ideal size or size range for the new board and whether to reach the ideal immediately or through a transitional process of one or more years.**

The board's target size should reflect best practice, not merely

Eight Practices for a Successful Board Down-sizing Initiative

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4. Base down-sizing decisions on objective, competency-based criteria that identify the areas of knowledge, skills and personal attributes that will be needed on the new board.
5. Assess the present board: Consult with current members to ask for their confidential assessment of their peers' competencies, and to ascertain their interest in serving on the new board.
6. Decide on the ideal size or size range for the new board and whether to reach the ideal immediately or through a transitional process of one or more years.
7. Choose a slate of nominees for the new board, focusing on the desired competencies as well as appearances of balance and representation.
8. Bring the proposed slate to the full board for approval and begin implementation.

what's easily achievable. If a post-merger board, for example, exceeds 30 members, it may be politically easier to down-size gradually to 20-25, but if the board determines that best practice would be smaller, say 11-15, it should use the opportunity to embrace a size that will facilitate better board performance.

When deciding on board size, it's useful to consider committee needs, but keep in mind that committees don't need to be large to be effective. Committees as small as three to five members can excel if they have the right skills and leadership. Non-board members can also serve on most committees, so the size of the board doesn't necessarily need to expand to populate committees.

The right timing is important to build acceptance of the desired change. Some boards are ready to "pull off the bandage all at

once." Others opt for a transitional process of up to three years, gradually down-sizing as each class of trustees comes up for renewal. In merger situations, it's sometimes feasible to immediately hit the ideal size, but it's also common to begin with a larger, broadly representative board that will build trust among the parties, and then to charge a post-merger committee with the delicate task of down-sizing, usually within a few years.

Ascertaining trustees' interest in serving on the future board, as noted earlier, engages trustees and can ease down-sizing decisions. Some trustees with long tenure may be ready to retire, immediately or after one more year or term. Others may decide that they do not have time to serve, given changes in their personal or professional lives. Yet other board members will voice interest in continued service. This input will be invaluable to help

the governance task force make respectful choices.

One approach to timing that's almost always flawed is to down-size through attrition on a board without term limits. Without a timeline, there's little ability to thoughtfully base composition on needed competencies.

alternative service such as committee membership or election to a foundation or affiliate board. Many organizations are recognizing the value of keeping previous directors informed of current events and involving individual alumni when their skills or connections are of value. This can also occur via community forums, task forces, focus

ration has been done carefully to this point, board approval should be unanimous and uneventful. Use the opportunity at this meeting or shortly thereafter to honor departing board members in a meaningful way.

Leadership

There is no substitute for leadership in a down-sizing process. The chair of the board and especially the chair of the governance task force must be prepared to support the case and process for down-sizing. If veteran board members voice their willingness to step aside, their personal commitment will speak volumes to peers. As for CEOs, they should be involved on the governance task force because their knowledge of trustees and needed skills is essential to informed decision making, but they should be cautious to avoid any appearance of hand-picking a management-friendly board. Down-sizing is a board process that is led and decided by trustees for the sole benefit of the future organization.

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- 7. Choose a slate of nominees for the new board, focusing on the desired competencies as well as appearances of balance and representation.** This is arguably the hardest step for the governance task force, but the assessment results, target size and a sense of the desired timing give the task force the objective information it needs to recommend a competency-based team for the future. Don't rush the discussion: give the task force time, perhaps a few meetings, to ponder the assessment results and consider options for composition.

For current members who are not chosen to continue through or past their current term, consider

groups, or the creation of Emeritus Trustees.

No trustee should be surprised about their fate. The board chair and/or the chair of the governance task force shoulder the sensitive task of speaking to individual members confidentially about their proposed future status before the recommended slate goes to the board. The conversation should express sincere appreciation for past service, reaffirmation of the rationale for change and the objective selection process, and the individual's future role and tenure.

- 8. Bring the proposed slate to the full board for approval and begin implementation.** If all the prepa-