

Effective Board Culture: The Last Frontier

by Pamela R. Knecht

Over the last decade, and especially since the Enron failure, boards of all types have been working to enhance their performance. They ensure their composition is competency-based; they align their structures with their strategies; and they have robust, written governance procedures. All of these are important elements of effective governance.

Yet, the performance of many of these boards remains sub-optimal. Despite using best practices, structures and policies, they still are not providing sufficient oversight of their organizations. Evidence of this failure surfaces in reports about boards that have not performed their duties well. Some recent stories revisit the same issues that contributed to the scandals of Enron and AHERF (Allegheny Health Education and Research Foundation). For instance, a not-for-profit nursing home board in Pennsylvania recently ensured some of the organization's creditors got paid back in full before the nursing home declared bankruptcy (just like the AHERF board).

Why, then, do even some of the "best practice" boards continue to fail? The short answer is that they do not have an effective culture. This challenge – developing a healthy culture – is now considered the last frontier for those seeking truly great governance.

What is Culture?

The trick is that culture is difficult to see and even more challenging to change. A helpful way to begin assessing this issue is by clarifying the definition of culture. Colloquially, "culture" is often defined as "the way

we do things around here." It includes the assumptions about how best to solve problems and the agreements about what behaviors are considered to be normal. Every board (in fact every group) has a culture. The issue is whether the culture is as healthy and productive as it could be.

Why Should We Assess Our Board's Culture?

Sometimes, there is a clear reason for a board to want to better understand and improve its culture. For instance, forward-thinking boards conduct a board culture assessment as a part of the search for a new CEO. Other boards discuss their desired culture with the new CEO once he or she arrives.

Likewise, some boards decide to assess their culture at the request of a board

chair who wants to ensure governance is performing at the highest possible level. This could happen when a new board wants to set the bar high at the beginning of his or her leadership term.

Another possible reason to evaluate the board's culture is to ensure the success of an upcoming strategic partnership, affiliation or merger. Proactive organizations conduct a board culture assessment prior to signing the definitive agreement to ensure they do not meet the fate of so many other mergers that failed because of a cultural mis-match.

Or, the chair may want to do a deep dive into the board's culture because something has come to light that calls into question the board's oversight (e.g., a Stark law violation; needing to re-state earnings).

Unfortunately, some boards need to assess their culture because they clearly have become dysfunctional (e.g., they cannot come to agreement on decisions; they have severe disagreements about the proper role of the CEO vis-à-vis the board).

Who Should Participate in and Lead the Assessment?

The first step in a board culture assessment is to secure agreement from the full board for this initiative. It is critical that the board chair be the advocate for this work and that the rest of the board supports doing the culture assessment. Since it is considered "best practice" for



a board to evaluate its structure and practices at least every three years, this effort could be part of that assessment.

Assuming the board has agreed to assess its functioning, the board's governance committee typically leads the process, because it is (or should be) charged with board development. Assessing culture can be a difficult and sensitive issue, so it is often best to retain an external consultant, who is both an expert in governance and a skilled facilitator of group dynamics and decision making, to address tricky issues that may arise as a part of this process.

How Should the Assessment be Conducted?

The assessment should start with a targeted review of key governance documents such as bylaws, board rosters, committee structure and charters, position descriptions, and the results of previous board self-assessments. The next step usually is to conduct individual interviews with all board members and a few key executives who are regularly involved with the board (e.g., CEO and CFO). Another important component of the process is to observe a regular board meeting to see how board members and executives interact.

What Issues Should We Look for?

In assessing board culture (versus the cultures of other groups), a few key markers will help describe the board's current culture and identify possible issues for discussion. These markers are listed below along with where they may be found (e.g., certain governance documents; by observing a meeting).

Role and Duty Clarity

- Do all board members really understand their basic fiduciary duties such as the duties of loyalty and obedience to the mission, and not to a particular constituency? (Look for representational composition of boards; ask in interviews.)
- Are all board members making objective decisions based on what is best for the mission/system as a whole? (Look for insufficient conflict of interest and independence disclosure and management in meeting minutes; ask in interviews.)
- Does each board member understand and respect the distinction between governance and management? (Look at the agenda and minutes to see the level and type of topics addressed; look at the committee structure to see if it includes management-like committees; observe the topics discussed in meetings.)
- If this is a health system, do the board members at each subsidiary board and the parent board understand the differences between their roles? (Look at the bylaws; look for an authority matrix; ask in interviews.)

Power and Authority Balance:

- Is there a good balance between board-led and management-led governance? (Look at the bylaws and board and CEO position descriptions to determine where the power lies; look at agendas and minutes to evaluate whether the presentations and discus-

sions are led by board and committee chairs or by management; observe meetings and review minutes to see if the board is asking enough probing questions about management's proposals.)

- Is there an excessively strong executive committee? (Look at the bylaws to see if it has final decision-making authority or if its decisions must be reported to the full board; look at the frequency of its meetings; listen for comments from non-executive committee members regarding feeling "out of the loop.")
- Is the board chair assuming too much authority? (Look at bylaws and position descriptions for language that suggests the chair can make decisions on behalf of the board; determine whether officers have reasonable terms and term limits; watch during meetings to see if other board members are too deferential to the chair.)
- Have some board members served on the board a very long time and become "the authorities"? (Study the tenure of board members; look at whether there are terms and term limits to ensure "new blood" comes on the board.)

Commitment to Continuous Improvement in Governance Practices

- Does the board use a competency- and performance-based approach to selection and re-appointment of board and committee members? (Look at bylaws and policies as well as the actual board roster to confirm a mix of competencies; ask about the process used to determine whether a board member is invited to serve another term.)
- Does the board use all possible methods for staying educated and informed? (Look for a robust orientation, an annual education calendar, and annual retreats.)

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- Is there an annual assessment of each board member, chair, and the full board that results in board development goals? (Review the board education calendar and annual board goals.)
- Is there a written board leadership development and succession plan? (Look for a policy; ask if it is actually followed.)

Rigor and Accountability

- Does the board have a rigorous approach to its own work? (Look for comprehensive board policies.)
- Is the information provided to the board timely, at the right level, and transparent? (Look at board packets to ensure they include high-level, graphic summaries of information; agendas and minutes.)
- Do the board and CEO jointly set the CEO's annual performance goals and hold the CEO accountable to achievement of those goals? (Look for a document that includes the CEO's goals; ask in interviews.)
- Does the board have a rigorous approach to conducting all of its governance responsibilities? (Look for an annual board topic calendar including review of the audit and other key tasks; study board and committee meeting agendas.)

Healthy Group Dynamics

- Is the size of the board small enough for healthy discussion? (Look at the bylaws; read the minutes; ask in interviews.)
- Are all board members engaged in conversations and actively seeking each others' opinions during meetings? (Observe whether some board members dominate discussions; ask if board members discuss board business outside of the boardroom.)
- Is the decision-making style one that strives for consensus? (Observe during meetings and ask in interviews.)
- Is the majority of the meeting spent in discussions versus listening to reports? (Look at the agenda and minutes; observe meetings.)
- Does each board member exhibit strong interpersonal communication skills? (Observe meetings and ask during interviews.)
- Does the board have (and hold each other accountable to) guidelines regarding the expected behavior of individual board members? (Ask for a copy of the guidelines; observe the meetings.)
- Are the board's discussions characterized by trust, mutual respect

and candor? (Observe meetings; ask during interviews.)

The markers of a healthy culture listed above are not meant to be a comprehensive list. Rather, they are the issues boards need to focus on most to ensure they have a healthy culture.

The best boards are those that regularly take the time (often in a retreat setting) to have an open, honest discussion about their current culture and the ideal culture, and then make action plans to move to that desired state. No board can be perfect. But, it is incumbent on boards to "turn over the rocks" to see if there is room to improve their governance structures, policies, practices and culture. Boards that have made a commitment to regularly and honestly review their own culture have conquered the last frontier of governance effectiveness.

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