

# Trustee Insights

## BOARD RESPONSIBILITIES



## 5 Steps to Move from “Yes Boards” to “Best Boards”

Boards should assess if structure and composition support pressing back on health system leaders

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One of the strongest predictors of health system performance is the quality of governance that shapes its response in an unstable environment.

Volatility demands more from a governing board. It requires tough decisions and a highly strategic response to the growing challenges health systems face. For many health system boards, the inclination is to go on defense when business

risks emerge.

Organizations today face complex pressures for which boards should go on offense when confronted with unexpected results and challenges. It also necessitates self-reflection, starting with the toughest question confronting boards: Do we have the right people in the right seats to make decisions that address the current environment while positioning the organization for strategic success?

Recently, Guidehouse met with some of the nation’s top financial advisors, investment bankers and lawyers to gain their perspectives on what it will take for health system boards and leaders to drive financial stability and a growth strategy amid high degrees of uncertainty. One of the key takeaways from those discussions is the danger of passive board engagement. Typically, this manifests in “Yes Boards” that are more likely to approve senior leaders’ plans than to delve deeper and question whether these are the right responses for right now and in the future.

The volatility health care organizations encounter today has exposed flaws in what used to be considered “tried and true” approaches, like concentrating on ways to grow revenue faster than expenses, or the dependence on investment portfolio returns. As one investment banking executive said, “The reliance on some of these trends is no longer working — and [boards] need

to peel back layers of the onion to understand how to fix it.”

To get there, boards must carefully consider whether they have the appropriate structure and composition to press back on the strategies health system leaders present to get to the best solution. In effect, they must transition from “Yes Boards” to “Best Boards.”

## Getting There from Here

How can health system boards most effectively move from a state of uncertainty to one of transformative leadership? It starts with self-reflection and self-awareness. Here are five things to consider.

**1. Recognize that we’re experiencing a new normal in health care.** Most health care boards were not immediately responsive to the changing dynamics of the health care market, although some have demonstrated greater skill in governance than others. Now, many board members must consider what it will take to move away from a “rubber stamp” model of governance toward a more active role in determining their organization’s path forward.

“Health systems need boards that are comfortable enough to lead change,” said Eb LeMaster, CEO at Ponder & Co. “Many leaders are worried about scrutiny, but ‘no change’ isn’t an option. Instead, a willingness to take on risk is imperative.”

**2. Consider whether your board has the right composition to meet today’s challenges.** For instance, COVID-19-related pressures and workforce shortages and burnout have stretched health care

resources to their breaking point. To navigate these pressures, health system boards should include a clinician who understands market industry trends and can speak with a high degree of authority on the needs of health care teams and the communities they serve, as well as who understands the operational breakdowns that hinder care delivery and the resources and tactics that could make a difference.

Similarly, at a time when big tech is making big moves in health care and well-capitalized disruptors are rapidly acquiring physician practices, health system boards should have members who are skilled in data analytics to better detect changes in the market or in utilization before they become issues — as well as those who possess experience in developing alternative revenue sources, including nontraditional.

Also critical to a board makeup are members whose professional backgrounds include experience in leading organizations in a disruptive business environment. One question to consider is if board members need to come from the geographic area of the health system or can the health system draw some of its governance from top talent across the country according to its needs.

For more information, or to access additional starting points for discussion, view the American Hospital Association’s (AHA’s) resource, “[The Guide to Good Governance for Hospital Boards](#).”

**3. Assess the level of engagement of board members.** Ask if your board members meaningfully engage in conversations around the initiatives, proposed responses and strategies presented by senior

leaders, or do some have a tendency not to look beyond what is presented and consider whether another approach could offer greater benefits. “Yes Boards” are more likely to be directed by their senior leadership team than to critically assess the plans that are presented and assume a lead role in determining the organization’s strategic direction. In an era of economic turmoil, for instance, “mission versus margin” should be a critical area of discussion.

“Leaders want to focus on the mission, but no money, no mission. They need to balance their services, who they’re being provided to and the economics behind them,” said Felicia Gerber Perlman, global head of restructuring & insolvency, McDermott Will & Emery LLP. “Best Boards” have the capability and the expertise to ask hard questions related to balancing mission, operations, strategy and finance. The AHA’s [self-assessment for board members](#) is an excellent place to start.

**4. Determine whether new processes for evaluating board performance are needed.** “Best Boards” have a process for evaluating the commitment of individuals selected to govern the organization and their ability to effectively function as a board member. In some boards, this responsibility falls to the board chair; others, given the potential for discomfort and hurt feelings, rely on a consultant to perform this evaluation based on national standards for assessing board engagement and effectiveness. Boards that are intellectually honest with themselves invest in meaningful individual board member evaluations as well as evaluations of the board as

a whole, which are vital both during periods of volatility and strength.

**5. Evaluate your board's capacity for assessing risk at all levels.**

This includes reputational risk, which is critical to assess at a time of industry consolidation and breakdowns in public trust in our nation's health care system, especially when it comes to health equity and environmental impact. Risks to an organization's reputation can stem from actions taken to reduce financial risk, such as closing a struggling hospital in a market with too many beds, or operational risk. Today's

health system boards must have the technical skill to assess all risk or access to this capability — from inside or outside the organization. They should also have the fortitude to respond to risk in ways that may make the communities they serve uncomfortable, but that have the potential to promote long-term stability and growth.

By making the commitment to become a "Best Board" over a "Yes Board," hospital board members can make a deeper impact for the communities they serve, protecting one of their community's

most important resources.

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