The Top 10 Principles and Practices of Great Boards

Great organizations have great leadership—at the top and throughout their ranks.

What distinguishes good boards from mediocre boards is that they follow certain practices that are connected to the effective discharge of governance responsibilities. Great boards take sound board practices to the next level. They build on the basics and pursue a vision of an exceptional board culture built on accountability, candor, continuous leaning, and continuous improvement. The great board is never done seeking governance excellence.

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Core Principles and Practices

The road to exceptional governance begins with a board embracing a core set of principles and practices that give meaning to the overused term "great governance." Embedded in core governance documents such corporate governance principles, a governance charter, and the board's position description, these core elements are reinforced during board orientation and form the framework for a robust, systematic approach to governance.

1. **Accountability**. Directors understand they have a fiduciary responsibility to see that the organization fulfills its mission, acts in the best interests of its primary stakeholders (for

hospitals, that means patients and the community), and protects the assets of the organization.

Recommended practice: A written position description documents the fiduciary duties, roles, responsibilities, and expectations of directors. A Board Policy Manual spells out how the board will perform important governance functions, such as strategic and financial planning, delegation of spending authority to management, quality oversight, community benefit oversight, CEO evaluation, audit oversight, compliance oversight, executive evaluation and compensation, board succession planning, conflict of interest, and board self-evaluation.

2. **Governing not managing**. Boards have an oversight function, but great boards govern—they don't try to run operations—explicitly or subtly. They are careful not to "get into the weeds" with overly detailed operational questions and micro-managing day-to-day decisions.

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Governance involves five overarching board roles:

- Establishing the mission and setting high-level organizational goals.
- Approving major decisions and policies.
- Selecting a chief executive officer.
- Overseeing the CEO's management of the enterprise.
- Connecting with external stakeholders, including community and political leaders as well as donors.

Recommended practice: Governance—especially in large, complex organizations such as hospitals and health systems—is most effective when directors focus their work on higher-level strategic choices, priorities, and future directions. Great boards create the space for great management to operate.

3. **Competency-based and diverse board makeup**. Great boards select members who are committed to the mission, possess leadership skills, and exhibit personal integrity. They also bring specific competencies needed for effective governance, such as experience as a chief executive or high-level processional in finance, strategy, quality, human resources, audit, and law. Not-for-profit boards can benefit from a diverse makeup—by ethnicity, gender and age—of talented individuals who reflect the community served and understand the needs of various stakeholders. Great boards re-elect members based on their participation, performance, and a continuing need for their particular skills.

   Recommended practices: The board or a Governance and Nominating Committee adopt written competency-criteria which are applied in an ongoing succession planning process for board members and board leaders. Boards of public agencies that don't select their own members encourage appointing authorities to adopt objective, competency-based criteria because it is in their community's interest to have people and the right talents governing their health system's assets.

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4. **Continuous learning.** The healthcare industry is undergoing constant change, from new regulations and market forces to innovative methods for improving outcomes and increasing efficiency. The great board must be a "learning organization" with specific activities to integrate education and real-time learning into its work.

   Recommended practices: All directors receive an orientation to the healthcare environment, their roles, and how the organization works. The board follows a written education plan, updated at least annually, that identifies the vital topics for board education at meetings, retreats, and outside conferences.

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5. **Accountable partnership with the CEO.** The board selects, evaluates, and provides for compensation of an outstanding chief executive—and, if necessary, replaces the CEO. An effective partnership is characterized by shared goals, candid communications, mutual respect, and accountability.

   Recommended practices: The board, often assisted by an Executive Evaluation and Compensation Committee and a third-party compensation consultant, adopts a compensation philosophy and formal plan for its top executives. It establishes a collaborative process to evaluate CEO performance, provide constructive feedback, approve incentive pay, and establish prospective goals annually. Committee members are "independent," free of economic ties to the organization.

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6. **Streamlined structure.** The board is a workable size—large enough to include a range of needed competencies but small enough to interact and learn as a cohesive team. The board establishes working committees to assist it with oversight and deliberation of recommended decisions prior to full board consideration.

   Recommended practices: The board is right-sized, usually 11 to 17 members. It creates working committees to engage in oversight and development of recommendations to the board. The full board reviews but does not rehash committee work. The most common are the Executive, Finance, Investment, Audit and Compliance, Quality, Executive Compensation, and Governance and Nominating Committees. All committees have written charters; they "sunset" every two years—when their necessity is reassessed and their purpose updated.

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7. **Governance (not operational) information.** The board relies on accurate, objective information, not anecdotes or predispositions, when it oversees performance and makes decisions. The board receives information in advance of meetings, and directors are responsible for reviewing materials and coming to meetings prepared.

   Recommended practices: A visually powerful dashboard or balanced scorecard of carefully selected measures for finances, business strategy, clinical quality,

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customer service, and community benefit enables the board to track performance against goals and industry benchmarks. Major board decisions are supported by concise information that demonstrates the connection to the mission and vision and helps the board evaluate the risks and benefits of the action.

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8. **Participative and efficient meetings.** Meetings are informative, interactive, and action-oriented. They follow written agendas, and questions and discussion are encouraged. Minutes document the essence of discussions and the decisions taken.

   Recommended practices: The strategic plan drives an annual "Board Education and Work Plan" and meeting agendas that focus on important, future oriented issues. The chairperson balances discussion and questioning with a commitment to reach closure, take decisive action, and stay on schedule. A consent agenda is used to dispatch routine business efficiently. An executive session with only directors and the CEO is held at every meeting for candid discussion of confidential or sensitive topics.

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9. **Personal integrity.** Directors act in the best interest of the mission, the organization, and the stakeholders, not on personal, economic, or other self-interests.

   Recommended practices: The board follows a conflict-of-interest policy that at a minimum meets IRS standards. Directors disclose potential conflicts annually and whenever they occur. The conflict of interest policy is scrupulously enforced, and confidentiality is taken seriously.

10. **Board self-renewal.** The great board seeks to continuously improve its performance and its connectedness with the community and stakeholders it services.

    Recommended practices: The Board evaluates itself at least every two years and adopts a Board Development Action Plan of desired improvements. The board has either term limits or a rigorous process individual evaluation prior to re-election (or both) to ensure that it only re-elects directors who fulfill their fiduciary responsibilities, keep educated and engaged, and support the organization's mission and vision.

Great governance is a journey, not a destination.

Great governance is a journey, not a destination. Past performance is, as the saying goes, no guarantee of future success. The board that becomes self-satisfied is a board that may underperform its full potential and the organization's needs. The board that creates and pursues excellence creates a virtuous cycle:

- of talented committed directors . . .
- who are engaged and energized in intellectually stimulating work . . .
- that enhances the mission and vision and achieves public recognition . . .
- which makes board service attractive to a new generation of outstanding prospective directors.