

Board Practices that Separate the Best from the Rest

by Barry S. Bader

The AHA's 2011 Governance Survey shows that good governance practices continue to take hold among hospitals and health systems. Driven by powerful economic pressures and stringent legal requirements to be visionary, strategic, diligent and independent, boards are applying various "good governance" practices, including competency-based succession planning, board orientation and education, routine executive sessions, CEO retention planning, and board self-evaluation.

However, there's a distinction between "good" and "great," a differentiation between merely implementing practices and fully living the values that underscore those practices. Many boards are effective and discharge their duties reasonably well – but a few excel, inspiring and leading their organizations to greatness. What separates the best from the rest? In my experience, three things stand out: a culture of high expectations, an investment in governance capacity, and depth of board leadership.

Culture of High Expectations

Most people and teams perform best when they are challenged by difficult problems and ambitious goals. As engineer and inventor Charles Kettering once said, "High achievement always takes place in the framework of high expectation." Successful companies such as Apple, General Electric and Southwest Airlines are known for asking a lot of their people (and for supporting and rewarding them).

By contrast, some hospitals and health systems seem reluctant to set the bar for their boards too high for fear of losing busy, talented volunteers. Their assumption is flawed. The best directors want to make a difference, not just add their name to a letterhead. They are not interested in being rubber stamps, nor do they want to do top management's work. Rather, they want governance work to

do: strategic choices to make, priorities to weigh, and legacies to create. They want agendas on issues that matter. They know hard work is required and they're prepared to make the commitment -- if board work is meaningful and their contributions to deliberation, decision making and oversight are valued, not window dressing.

Therefore, from the time a director is recruited, the board should communicate its high expectations, such as:

- Governance is a serious fiduciary responsibility requiring that directors come to meetings prepared, actively engage in questions and discussion, and don't hesitate to challenge the prevailing wisdom or rosy forecasts.
- A thorough orientation provides an essential grounding in the organization, the board and the strategic environment. A single orientation meeting with the CEO is only the first step. All new directors are expected to participate in an orientation process involving a series of educational briefings, outside conferences, critical readings, and rotation through committees over their first year. Every new director is assigned a mentor who models the desired culture.
- Directors' work may extend beyond the boardroom to serve as an ambassador and relationship builder with community stakeholders, donors and public policy makers.

- Meetings will entail real work and, thus, will be scheduled as frequently and for as long as needed to facilitate substantive interaction.
- Retreats aren't "just for education" – they are working laboratories of learning and creativity that are designed to address questions of importance involving organizational mission, strategy and policy.
- Commitment and accountability go hand in hand. Directors should be prepared to make a long term commitment to the organization (*e.g.*, to serve three, three-year terms on the board) -- but also know that re-election will be performance-based, not automatic. All directors will be evaluated based on their participation and contributions to board work after one year, and subsequently, when they are eligible for another term on the board.

Invest in Governance Capacity

The best-performing boards make an investment in high-performance governance by putting resources into board succession planning, infrastructure, education, and ongoing development. As the late football coach Vince Lombardi once famously said, "Contrary to the opinion of many people, leaders are not born. Leaders are made, and they are made by effort and hard work."

To that end, on the best performing boards, it's common to find:

- A standing Governance Committee is active and sees that ongoing board development receives high priority attention. A Governance Development Plan is updated annually based on the results of a board self-assessment process.
- A strong infrastructure supports board activities, scheduling and communications. A seasoned executive or manager is designated the "chief governance administration officer" or "governance support manager," and has



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ready access to the board's chief staff person, the CEO.

- Competency-based board succession planning is treated like a never-ending, high-priority executive search process to keep board and committee positions filled with individuals who bring the backgrounds, skills, connections and diversity the board needs. The board aims to have at least one "independent expert" in each of the critical areas of finance and audit, strategic planning, quality and patient safety, and executive compensation, respectively.
- The board aims high in recruiting directors. It looks for at least a few individuals who have been CEOs of large corporations or universities. Directors with C-suite backgrounds come to the board room well-prepared to raise and deliberate tough and touchy matters with the confidence and tact born of experience.
- A sufficient budget is provided for board education and development, including an annual retreat.
- The board deploys the best available governance process tools, customized for the organization, including but not limited to director role descriptions, policies, committee charters, dashboards, succession planning templates, board portal capabilities, self-assessment instruments, and techniques for making meetings productive.

Choose and Develop Great Board Leaders

It's axiomatic that a great board requires a great chairperson, but the best boards don't leave that selection to chance nor do they limit leadership development to the board chair. The best boards build a broad base of leadership and develop their potential to the fullest. As IBM founder Thomas J. Watson wrote, "I believe the real difference between success and failure in a corporation can be very often traced to the question of how well the organization brings out the great energies and talents of its people."

Boards can model leadership development for their organizations by such activities as these:

- The board has at least two "champions" of great governance, one of whom is the chair of the Governance Committee.
- The board develops a pipeline of highly effective board officers and committee chairs through a competency-based succession planning process for board leaders. It defines the roles and competencies sought from a board chair and other board leaders. It looks for the attributes of a future chairperson when recruiting new directors. It uses committee chairmanships, officer positions and special assignments to groom potential future chairs. It identifies a "chair elect" ahead of an expected vacancy.

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- The board taps the leadership abilities of committee chairs like a president's cabinet, giving them leadership responsibilities in their areas to pursue committee goals and work plans that are aligned with the board's goals. Committee chairs work closely with the senior executive(s) in their area, and the chair presents the committee's recommendations at full board meetings.
- In perhaps the most overlooked element of great governance, the board selects a CEO who values an active, independent board. Truth be known, almost all CEOs say they want an engaged board but not all do. Privately, they admit they prefer a few active members but want most of the board to play more traditional, limited roles of philanthropy and community relations. These CEOs can be skilled and even successful but they will never gain the value-added of having all directors (not just a select few) fully informed and engaged on a strategic level.

Test of Greatness

The "greatness" of a board -- like an organization, a sports team or a marriage -- cannot be measured over a short term.

To be sustainable, the capacity for greatness must be embedded into a culture that is handed down and perseveres through difficult times and changing leaders. Some boards have appeared to be high performers -- only to falter when faced with a financial crisis or a change in the CEO or board chairperson.

The value of periodic board surveys such as the AHA Governance Survey does not lie in comparisons to the average or even to trends. Rather, the value of the survey is to frame the elements of governance such as board size, makeup, committees, practices and so forth so they may be examined with a critical eye toward what will be needed in the future.

For corporations, the future means becoming more global; for universities, it means being less bound to the campus and more virtual. For hospitals, it

means evolving from fragmented facilities and clinicians to integrated and accountable systems of care, focused on the health of patients and the community.

Governance of these care systems will be different in some ways than the governance of hospitals. The measures of success will involve improved health, economic value and the patient experience far more than current measures do. Physicians will occupy important leadership roles. The board's public accountability for community benefit, ethical conduct and stewardship of resources will be greater.

However, even as care systems grow, the building blocks of great governance -- culture, investment in governance capacity and board leadership -- will endure. Therefore, as today's hospitals and health systems restructure into systems of care, they need to hard wire these building blocks into their governance models from the outset.

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