

# Trustee Insights

## PRACTICAL GOVERNANCE



## Board Oversight of Culture for High-Performing Hospitals

Leadership can learn from an informed, objective audit to improve management practices and processes

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**H**ow does your hospital board know it is meeting its full responsibilities? Is the board doing its job with only a limited view into how the organization actually operates?

“Good board members monitor, guide and enable good management; they do not do it themselves,” writes Lesley Rosenthal, general counsel of Lincoln Center for the Performing Arts (<https://corp.gov.law.harvard.edu/2012/04/15/nonprofit-corporate-governance-the-boards-role/>), adding that good governance includes forming strategic policies and goals; authorizing major transactions;

### Transforming Governance

overseeing viability of the organization’s business model, integrity of its internal systems and controls, and accuracy of its financial statements; stewarding the organization’s resources; mentoring senior management; and evaluating operations.

But how do boards “monitor, guide and enable good management” and evaluate operations without actually stepping into a management role? An effective board requires a chair who sets appropriate agendas and leads. It also needs committed, skilled members unafraid to ask difficult questions of each other, the CEO and his/her team in an open environment.

Understandably, boards tend

### TRUSTEE TALKING POINTS

- Culture is the result of leadership decisions shaping policies, processes and procedures, and how seriously these are internalized throughout the organization.
- To understand how the organization really functions on a day-to-day basis, a board needs insight beyond financials and general discussions of operating issues.
- The board and hospital leadership would benefit from an independent audit of the organization’s work life and its efficacy.
- However, the audit should emphasize continuous improvement rather than serve as a performance review.

to focus on their fiduciary role, being well supported in doing so. Beyond appraisal of financial reports, the board, via its audit committee, reviews the external auditor’s detailed report and its “Management Letter.” Not a performance review of the CFO, the Management Letter offers recommendations to improve the hospital’s financial operations and reporting processes. A good board reviews these recommendations with the CFO, considers his or her responses, and monitors implementation of agreed-upon changes.

While this fiduciary lens on the hospital’s activities is critical, another vital perspective does not get the

board attention it deserves. To quote from a “Report of the NACD Blue Ribbon Commission on Culture as a Corporate Asset” of the National Association of Corporate Directors, “If values are about the ‘what and why’ of an organization, then culture is the ‘how,’ the way in which those values

are lived on a day-to-day basis.” While some may feel culture to be a dubious aspect of an organization, it is the result of leadership decisions shaping policies, processes and procedures, and how seriously these are internalized throughout the organization.

One could list spectacular cases

of management misbehavior that slipped by board oversight. We focus on less flashy but more prevalent indicators of deeper issues that reflect organizational culture, such as:

- excessive turnover because of poor management (if not at the C-suite, then at lower levels);

## Initiating a Leadership Audit

Potential resources for conducting a Leadership Audit include organizational development or HR consultants with expertise in institutional assessments and familiarity with large organizations of professionals. If a hospital has a productive relationship with a management consulting firm, the board could determine if it has the expertise to conduct the desired assessment. Another approach is an advisory panel of current or former leaders of peer organizations comparable to panels selected for departmental reviews at academic medical centers. That group might be led by an expert in human resources or organization development.

The RFP for a Leadership Audit should state both priority and general areas of concern, which will vary by organization. The following topics — grouped into broad categories — should be considered:

- **Leadership structures and positions:** Are roles, relationships and responsibilities clearly defined and appropriate? Do organization charts reflect how responsibility and accountability really flow? Are critical positions staffed with talented and motivated people? Is the organization well served by a diverse leadership team? Is there a succession pipeline for critical positions?
- **Alignment of desired behaviors and recognition:** How meaningful are performance reviews? How often are they carried out? Do senior managers get feedback on their performance — from peers and subordinates as well as from superiors? Does compensation promote the operating and strategic goals of the organization? Are individual employees recognized for outstanding performance? Is recognition private or organizationwide?
- **Critical decision-making processes:** For major resource-intensive decisions, are processes well supported with data? Do they reflect a variety of perspectives?
- **Self-correcting mechanisms:** Are grievances, complaints of sexual harassment, inequity of pay and so

forth, dealt with effectively? Are there functioning, fair and accessible appeal mechanisms? Do staff know about and use them? Are HR policies and practices appropriate to 21st century issues? Is turnover within acceptable ranges?

- **The CEO as leader:** How effectively does the CEO motivate, energize and communicate with the organization? To what extent is the organization’s culture shaped by the CEO in service to its mission and values? Is the CEO visible at all organizational levels? Are vehicles for two-way communication used effectively? How does the CEO allocate his/her time? Is that in line with strategy?

The board could include itself in this audit. Board self-assessments typically address limited factors such as level of familiarity with the organization’s mission and business model, frequency of meetings, and quality of materials. Consider these topics:

- **Control of the board agenda:** Who sets the agenda — CEO, board chair, other? Does the chair engage board members to encourage relevant and open discussion? Does the relationship between the CEO and board chair encourage working through different perspectives?
- **Term limits and succession:** Are there limits on terms for board membership and board leadership? Is there planned succession for board and committee leadership?
- **Trustee empowerment:** Do individual board members feel empowered to (and actually bring up) uncomfortable topics they feel important or call for clarification?
- **Board structure:** Is use of committees (including Executive Committee) conducive to both board engagement and efficient conduct of board business? Do agendas address critical issues and provide sufficient time for consideration?
- **Executive sessions:** Do board members regularly meet without staff, rather than signal a crisis when such a session is called?

— Mitchell Rabkin and Susan Friedman

- unenforced or inadequate personnel policies;
- unclear description of roles or relationships;
- gender discrimination;
- lack of openness;
- poor reception or handling of complaints by employees or patients; and so forth.

These situations lead to low morale, inefficiency, costly re-work, loss of talented staff, customer loss,

sagging reputation as a place to work, and patients' diminished expectations of technical quality of care and human concern. The result: underperforming human assets critical for the hospital's overall health. Even with the hospital performing well, as defined by financial metrics, ineffective management of human assets can threaten its future financial performance. Focusing on human capital must be an important element of an organization's

strategy and its achievement.

To understand how the organization really functions on a day-to-day basis, boards need to gauge the hospital's work life and its efficacy. Board responsibilities include: (a) understanding the hospital's operating model (and whether it actually performs in that mode), how critical decisions are made, and the hospital's ability to recognize its own problems and "self-correct"; and (b)

## Conducting a Leadership Audit

### POTENTIAL ACTIVITIES OF A LEADERSHIP AUDIT

Analyses and assessments for the audit could include:

- Staff input via 360° performance appraisals for senior leaders and random other employees
- Review of changes in senior leadership teams (who left — voluntarily or not, and for what role — and those hired) and what this says about the CEO's working relationships)
- Review of decision-making processes for critical decisions (who is involved, level of analytic input, organizational breadth of sharing need for change, clarity of considerations leading to decisions made, and actions to be taken)
- Review of institutional metrics and alignment with strategy
- Review of major HR policies regarding performance reviews, job descriptions, and so forth
- If relevant, review of bond agency ratings reports, especially nonfinancial aspects of their assessments
- Discussion with CEO on organizational strategy, its goals, alignment with budget, annual targets and status
- Review of CEO's calendar for past three months, assessing use of time against goals
- CEO's self-evaluation and its relation to his/her job description
- CEO's career plans and any relevant personal issues
- Confidential conversations with general counsel and board leadership

Your resources conducting the audit may wish to offer their own ideas or alternative activities.

### FINAL REPORT AND RECOMMENDATIONS

Based on the results of the Leadership Audit, the Leadership Letter should include at least the following elements:

- Summary of reviewers' background, experience
- Topics the board wanted addressed
- Degree to which the organization was responsive and helpful
- Activities conducted, materials reviewed and people (or categories of staff) involved — and their role
- Executive summary
- Findings
- Recommendations for board and management

What is working well in the organization should be highlighted as clearly as what is open to improvement. Recommendations should emphasize continuous improvement rather than serve as a performance review.

### PRESENTATION, DISCUSSION AND ACTION

Upon completion of the Leadership Letter, consultants should meet first with the board chair, then with the board chair and CEO together. The CEO and management team should consider the consultants' findings and recommendations before the full board sees the Leadership Letter. The CEO, with senior management, should then present a response to the full board, with open and positive discussion — a learning experience shared by all. It is imperative that the board, CEO and top management together take the final report as valuable input to strengthen the organization.

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ensuring that it happens.

How can a board best acquire the awareness to perform these functions? The livelihoods and primary responsibilities of board members lie elsewhere. What time they spend at the hospital, and the information they receive, is largely controlled by the CEO. Even informed by the most well-meaning and open chief executive, board members still have to “read a lot between the lines.” To meet its responsibilities, a board needs insight beyond financials and general discussions of operating issues, important as they are. Because boards don’t have the time to do the work themselves, they need to be supported by informed, competent and objective sources.

Just as the external audit with its Management Letter provides insight into financial operations and ways to improve them, boards and hospital leadership would benefit from a comparable audit of the organization’s workplace operations, producing a Leadership Letter with observations and recommendations for improvement, followed by board discussion with the hospital’s CEO, including implementation timelines and follow-through. (For further details, see Friedman SY and Rabkin MT, “Where Hospital Boards Often Fail: Auditing Leadership Performance,” in *Academic Medicine* 2018;93:1613-1616.)

This external review would evaluate topics such as leadership style and effectiveness, staff expertise, transparency, appropriateness of operating metrics and their relation to strategy and stated goals. Using three years as a general recommendation, the interval between reviews is flexible. Organizational changes

## TRUSTEE TAKEAWAYS



- A Leadership Letter is an objective audit of workplace operations conducted by knowledgeable resources beyond the hospital.
- The Letter provides the board and CEO with an informed assessment for understanding and improving the hospital’s operations.
- The board uses the Letter’s observations and recommendations as a learning experience shared by the CEO and senior management.
- Open and positive discussion should address implementation timelines and plans for follow-through.

typically do not evolve quickly. Shorter intervals may make sense in response to unusual events, such as a new CEO or a merger or acquisition. Knowledgeable resources beyond the hospital — consultants, executives engaged elsewhere, others — could perform a leadership audit.

The process model described in the sidebars has been employed for periodic departmental reviews at academic medical centers by external experts. In those settings, the process is not a performance review of the department head; rather, it serves as honest inquiry and evaluation shared with the department head, hospital director and medical school dean, offering comments and recommendations to bolster the department’s capabilities. The end is constructive, at times even adding justification to the department’s requests for hospital/medical school support for improve-

ment and growth.

Nor is the Leadership Letter a CEO performance review. Like the external auditor’s Management Letter, it is an informed external assessment for the CEO, other managers and the board to become aware of, monitor and improve hospital operations. Just as the Management Letter is appropriate for virtually all organizations — nonprofit and for-profit — so too is the Leadership Letter. A CEO might argue that his or her personal assessment of the organization suffices, but the primary goal of the letter is to add another perspective to that of the board and CEO. Surely any CFO ignoring the external auditor’s Management Letter would not be tolerated by the board. And any CEO should recognize the helpful benefit of the Leadership Letter.

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