

# Ensuring Board Effectiveness: *A Comprehensive Review*

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In today's complex healthcare environment, the difference between an organization's success and failure may be the effectiveness of the board itself.

Consider the following:

- A health system's excellent reputation was significantly damaged by the board's inability to carry through on a proposed affiliation with a hospital.
- A system routinely approved physician contracts that were not compliant with Stark laws because the board relied too heavily on physician board members' advice.
- A hospital lost multiple opportunities to acquire physician practices because board members did not keep the discussions confidential.

In hindsight, it is easy to see that these boards were guilty of ineffective governance. Those familiar with the above situations said that these boards:

- Did not sufficiently anticipate public reaction to their decision (i.e., lacked strategic thinking and understanding of key constituents' perspectives)
- Did not discuss all board members' concerns (i.e., lacked effective decision-making processes and a right-sized board)
- Did not take responsibility for knowing the laws and regulations (i.e., lacked compliance oversight policies, key competencies, an adequate committee structure, and education regarding key topics)
- Depended too much on trusted friends and colleagues (i.e., lacked required governance objectivity and a clear understanding of their legal role/fiduciary duties)
- Did not spend enough time discussing strategic-level issues (i.e., lacked understanding of the distinction between governance and management)
- Did not have sufficient policies and procedures (i.e., lacked updated conflict-of-interest policies)
- Neglected to call each other out on behavior that was inappropriate (i.e., lacked a written code of conduct and a healthy culture)

When stated this way, the challenges facing these boards sound very similar to those that many other boards struggle with. How, then, can a board ensure that it is not in danger of becoming ineffective?

The answer is to conduct a comprehensive review of the board's governance practices and structures on a regular basis. Boards that are committed to providing great governance will review their entire governance function every three years, or more often if the need arises (e.g., as a result of an affiliation, when

behavioral issues arise, or if the board becomes aware it has been lax in some key area). It is typically the governance committee that would be charged with leading a board enhancement effort.

A board that wants to conduct a rigorous review of its structure and performance should assess itself against advanced governance practices in the following areas:

- Corporate and board structure (number of and necessity for each entity, board and committee)
- Board size
- Board composition/competencies
- Board member job descriptions
- Committee structure
- Committee charters
- Committee size and competencies
- Meeting agendas and minutes
- Board and committee meeting frequency
- Board policies
- Code of conduct
- Board orientation materials and continuing education calendar
- Board self-assessment results (e.g., The Governance Institute's BoardCompass®)

The Governance Institute's biennial survey of governance practices is an excellent resource for this review.<sup>1</sup> The survey information should be augmented by other Governance Institute publications that describe the difference between practices that are currently in use by boards and those that are best practice. For instance, knowing that 56 percent of boards currently have strategic planning committees does not answer the question of whether that practice should be utilized by all boards.<sup>2</sup>

Ensuring that the board is utilizing best practices in each of the above categories is the first step in creating a highly effective board. Much of this analysis can be completed by an intensive review of relevant documents (e.g., bylaws, meeting minutes, board policies).

However, to ensure that the board is actually functioning well, it is often necessary to dig

deeper, especially if there are complex, behavioral issues. The best method for this deeper dive is to select a knowledgeable (outside) expert to conduct individual interviews with each board member. The interviewer should ask about the board's strengths, any concerns that the individual has regarding the board's effectiveness, and what changes they would recommend. By asking probing questions about key areas (e.g., governance/management distinction, conflicts of interest, strategic perspective, or oversight of compliance, audit, and executive compensation), the interviewer can learn what issues could cause the board to become less effective.

The results of the document review and the themes from the interviews should be captured in a written report. That report should also include specific recommendations for change. But, the board cannot and should not just accept a written report. The governance review will not lead to real change unless the board members themselves are engaged in candid discussions of the findings and work together to agree on needed changes.

The best format for this discussion is an off-site retreat that is attended by only board members and the CEO. This delicate conversation should be carefully designed and facilitated to ensure that the board members understand and own the issues and then speak openly about what needs to be done to improve the board's effectiveness. The agreed-upon actions should then be captured in a written board enhancement plan that includes specific due dates and identifies the responsible parties (e.g., governance committee) to oversee implementation.

This proactive, honest approach to reviewing (and changing) the board's structure and practices is the best way to inoculate it against the governance failures described at the beginning of this article. An important side benefit of regular, rigorous governance reviews is that the board is role modeling continuous improvement. This commitment to high quality from the top can permeate the entire organization, encouraging all stakeholders to do their best to provide excellent healthcare. That is the role that boards can and should play to ensure their organization's success. ●

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1 *Dynamic Governance: An Analysis of Board Structure and Practices in a Shifting Industry*, The Governance Institute's 2011 biennial survey of hospitals and healthcare systems.

2 For a more complete exploration of this issue, see Barry S. Bader, Edward A. Kazemek, Pamela R. Knecht, and Roger W. Witalis, FACHE, "Strategic Planning: Work for the Full Board or a Committee?" *BoardRoom Press* Advisors' Corner, The Governance Institute, April 2007.