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# Governance Notes

A Quarterly Summary of News, Resources, and Events for Governance Support Professionals



## Welcome to The Governance Institute's *Governance Notes*!

This newsletter provides governance support professionals with information and expert opinions in the area of hospital and health system governance and gives updates on services and events at The Governance Institute.

### News, Articles, and Updates

#### Making Time for Strategic Discussions

By Pamela R. Knecht, *ACCORD Limited*

Hospital and health system boards across the country are attempting to spend more of their meeting time in strategic-level discussions. This is occurring for several reasons:

- Boards are increasingly concerned about helping their senior management teams develop strategies to ensure their organization's success as the healthcare industry transforms itself.
- Scandals within the tax-exempt sector have led to scrutiny of boards' involvement in strategic direction-setting. For example, bond rating agencies are now including direct questions about the board's knowledge of various strategic options for the hospital/system when that organization is seeking funding and/or a rating upgrade.
- Busy individual board members want to be sure that the time they are spending away from their families and careers is spent in substantive discussions about issues that matter. This is especially the case for the vast majority (85 percent) of not-for-profit hospitals and health systems whose board members are volunteering their time.<sup>1</sup>

#### Insufficient Time on Strategy

Despite these and other reasons, the data from The Governance Institute's 2013 survey indicates very little change in boards' ability to devote more of their meeting time to these important topics. Survey respondents report that they only spend 33 percent of their meetings discussing strategy and policy.<sup>2</sup>

In addition, anecdotal stories abound of boards using significant amounts of their precious meeting

time listening to reports from committees and management and/or offering advice on management/operational issues (e.g., suggesting the colors for marketing materials) versus governance/strategic-level issues (e.g., whether to develop/participate in an accountable care organization). Since the most valuable asset a board has is its time, these practices are contributing to suboptimal performance of both the board and the organization.

"We will look to ensure that there is some degree of oversight of management's activities by the board and full board knowledge of various strategies and their potential impact on financial performance."

— Moody's Special Comment, *The Governance of Not-for-Profit Healthcare Organizations*, Moody's Investors Service, June 2005.

#### Strategic Discussions vs. Strategic Planning

Before describing methods for increasing time for strategy it is important to clarify terms. Boards should be talking about strategic-level issues at each meeting, not necessarily their strategic plan. Strategic planning is just one type of strategic discussion. Strategic-level discussions occur any time that the board is addressing issues that meet some of the following criteria:<sup>3</sup>

- Longer-term time horizon

<sup>1</sup> Kathryn C. Peisert, *Governing the Value Journey: A Profile of Structure, Culture, and Practices of Boards in Transition*, 2013 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

<sup>2</sup> Peisert, 2013.

<sup>3</sup> See Susanna E. Krentz and Pamela R. Knecht, "Strategic Conversations," *BoardRoom Press*, Vol. 21, No. 5 (October 2010), The Governance Institute, for more detail and examples.

- Substantial resources required
- Organization-wide or overarching issue
- Potential for significant impact on key stakeholders
- Affects organizational viability
- Impacts ability to achieve the mission

Strategic-level issues being discussed in boardrooms today include employing physicians, determining how to become clinically integrated, and deciding on the size of the geographic area/population the hospital/system will serve.

## High-Performing Boards' Strategy Practices

Considering the many strategic issues in healthcare now, high-performing boards are revisiting the way they have historically prepared for and conducted their meetings. They want to ensure their time is spent in discussions about issues that impact the achievement of their organization's mission. They are finding that there are no magic bullets; the levers for change are, in many ways, basic good practices for effective and efficient meetings. The key is that the practices have to be utilized—not just given lip service. If fully implemented, these practices will result in time being freed up for the important discussions.

The key practices fall into the following categories:

- Clear principles and expectations
- Rigorous calendaring
- Carefully crafted agendas and targeted materials
- Prepared leadership

### *Clear Principles and Expectations*

Great governance does not just happen; it requires strong board leadership and honest conversations about how the board will function. The best boards have articulated the principles that will undergird their work. For instance, they:

- Expect the board and senior management to act as partners (e.g., they jointly develop board and committee meeting agendas and materials versus relying on the CEO or other senior management)
- Hold each other accountable for staying informed and engaged (e.g., they set, monitor, and provide individual feedback regarding requirements for members' orientation, education, meeting attendance, preparation, and active participation)

- Delegate work to committees, increase their "thresholds" for decision making, and trust the work of the committees (e.g., they delegate to the finance committee authority to approve unbudgeted expenses up to a certain dollar amount)
- Prioritize discussion over reporting (e.g., they assume all have read the board packet and set the expectation that there will be no verbal reports of materials that were provided before the meeting)

Principles like these set the foundation for how the meetings will be scheduled, prepared for, and conducted. Each board and management team should develop their own functioning principles and then ensure that the board members and leaders (e.g., committee chairs) know what is expected of them.

### *Rigorous Calendaring*

At the start of each board year, the governance committee should oversee the development of a detailed, overarching calendar that includes all board and committee meetings, topics, educational events, and retreats. This calendar should be developed based on the strategic plan, other anticipated strategic-level decisions, required board approvals, and other key events.

A specific strategic topic should be identified for each board meeting. For instance, if one component or goal of the strategic plan is to increase physician–hospital alignment, that should be the strategic topic for at least one board meeting in the year. In addition, before the board would be asked to approve a major strategic initiative related to that goal (e.g., development of a co-management model), the appropriate committee or task force should have provided education and/or a recommendation.

Routine issues should also appear on the calendar, and the board and committee calendars should be aligned. For instance, the board's approval of the annual budget should be preceded by a meeting of the finance committee, at which it considers and recommends the budget. This should have the effect of limiting the finance committee's need for the full board to discuss the budget at multiple meetings, therefore freeing up time for strategic issues.

A basic, but critical success factor in rigorous calendaring is to ensure that the timing and sequencing of the committee meetings vis-à-vis the board meetings actually allows for this flow of

approvals. There should be two to three weeks between a committee meeting and the board meeting at which that committee's recommendations will be considered. This should allow sufficient time for the committee meeting minutes to be approved, an executive summary to be developed (see below), and all of the relevant materials to be included on the board portal at least a week before the board meeting.

The board calendar should also include a specific date for an annual, multi-day board retreat on strategic issues and/or strategic planning. Committing to a date far in advance increases the likelihood that all board members will be able to attend and that needed resources (e.g., external speakers) will be available. It also allows management and the board sufficient time to plan for a meaningful retreat and also requires the board to determine which topics will be addressed at the retreat versus during board meetings. In this way, the board can be sure to have the time needed for comprehensive discussions regarding complex and/or controversial issues.

### ***Carefully Crafted Agendas and Targeted Materials***

Boards only exist when they are meeting, so the board meeting agenda could be considered the most important indicator of a board's effectiveness. And yet, too many meeting agendas seem to have been put together at the last minute, without sufficient forethought. Or worse, the agenda follows the same format as it did 10 years ago, when most boards came and listened to reports, asked a few questions, and went home.

The modern-day board meeting agenda must be carefully crafted to ensure there is sufficient time to approve the needed items and discuss key issues. The best agendas are jointly developed by the board chair and CEO during a meeting in which they discuss which topics must be included in the next board meeting. Here are specific tips for developing agendas that free up time for strategic conversations:

- Use the board calendar described above to determine which strategic topic will be addressed and which routine approvals must occur.
- Move as much as possible into the consent agenda, so multiple items can be voted on at once.
- Develop "framing questions" for the selected strategic topic (e.g., what do you need to better understand regarding the system's clinical integration efforts?).

- Review the committee chairs' requests for board meeting time and only allow committees to make verbal presentations if they have a specific "ask" of the board (e.g., they need the board to make a decision).
- Schedule an education session at every meeting to ensure the board is sufficiently knowledgeable about topics before decisions must be made.
- Add specific, realistic start and end times for each agenda item (this helps set the expectation for how long the discussion will take and enables the chair to move the discussions along).

Once the agenda has been set, the board chair and CEO should instruct each committee chair and liaison to develop high-level, graphically displayed materials that include dashboards of key indicators and keep the board at the governance-level (versus providing overly detailed information). Each item in the packet should have an executive summary that describes the options that committee considered, what they are recommending and why, and the specific "ask" of the board. It is critical that the packets be provided with sufficient time for busy board members to prepare, so they are not reading materials for the first time in the board meeting.

### ***Prepared Leadership***

All of the preparation in the world will not guarantee sufficient discussion of strategic issues. It is the board chair who shoulders the responsibility for setting the right tone, ensuring balance between hearing all opinions and getting closure, and facilitating decision making that is supported by all (versus strict reliance on Roberts Rules of Order). The highest-performing boards have established rigorous leadership recruitment and development processes that ensure that the correct individuals have been selected as board and committee chairs, and that they have been carefully and thoroughly prepared for these important jobs (e.g., received training on meeting facilitation and resolving conflicts).<sup>4</sup>

In summary, making time for strategic conversations entails setting clear functioning principles and expectations, taking a rigorous approach to meeting calendars, carefully crafting agendas and materials, and choosing chairs who are highly prepared for the demanding job of

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<sup>4</sup> See Elements of Governance®: *Planning for Future Board Leadership*, The Governance Institute, 2011, for more information.

assertively and compassionately planning and facilitating meetings. The good and bad news is that there is no magic involved; if boards commit to becoming high-performing in all of their

responsibilities, they will have freed up time for one of the most important of their fiduciary duties—helping to set strategic direction for their organization.

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