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Board versus Management

A Crumbling Wall

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Why do governance consultants routinely receive requests to help boards clarify the distinction between governance and management? What makes some board members become too involved in day-to-day operations and others stay too far removed to be helpful? These questions reflect the confusion in many boardrooms today regarding the appropriate relationship between governance and management. This uncertainty about roles is due, in part, to a shift occurring in governance.

Governance in the "Good Old Days"

Ten or twenty years ago, a typical community member agreed to serve on the local hospital board as a civic duty, to improve social status, or to secure business leads. The healthcare industry was strong, and management tended to run things, so board members were not under much pressure to perform. Management defined the problems, assessed the options, and recommended solutions to the board. The board's role was to approve the recommendations made by management and to monitor the performance of the organization. Board members were not heavily involved in up-front problem definition or solution development.

In fact, some CEOs intentionally built a wall between management and governance to ensure that decisions were made by individuals who understood healthcare (the managers), and not by lay board members whose daytime jobs were usually outside of the healthcare field. In this model, the board sets policies for management to follow, while management is on the other side of the wall, in charge of operating within the framework set by the board.

This type of governance model still exists because it has some advantages. The roles, responsibilities, and decision-making authority of board and management are quite clear. For instance, a CEO who believes that board members are inappropriately wandering into management's domain can gently remind the board that its role is to set, not implement, policies and strategies.

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However, this strict separation of governance and management is beginning to be problematic. Astute board members know that some of the bankruptcies within and outside of healthcare (e.g., AHERF; Enron) have been attributed, in part, to the failure of boards. This spotlight on governance is causing healthcare board members to question how they can be more effective.

Most board members know they have a fiduciary duty to oversee the hospital or health system, and this responsibility includes understanding all reasonably available information before taking action (the duty of care). And yet, under the "wall" governance model, the board is usually not sufficiently involved in the discussions leading up to management's recommendations to know whether the proposed actions are appropriate.

Today, board members want to be more informed about the issues they are asked to approve, and CEOs want advice from knowledgeable board members before making definitive recommendations on complex matters. Thus, many boards and CEOs have challenged the notion that they must keep each other at arm's length.

The New Approach

In many forward-thinking organizations, the governance–management relationship is evolving toward a partnership approach. In these partnerships, the board and management determine what their relationship will be and how they will function. They work together to set and implement policy and to discover and address key issues.

The strategic planning process provides a good example of how some boards are using this new approach. In the past, management often defined the strategic issues, created a strategic plan, and asked the board to approve the plan. Under the partnership approach, the board is involved throughout the process. Board members strive to understand the healthcare environment, secure key stakeholders' perspectives, and learn about the community's healthcare needs. In planning sessions, the board and management frame the strategic issues, vision, and goals *together.* The board expects management to develop short-term action plans, and then monitors management's implementation of the entire plan.

Another way in which board and management clarify their roles, yet work together, is through a revised committee structure. Instead of using a structure that parallels the management organizational chart, boards create committees focused on the strategic priorities of the hospital or health system. For example, Physician Relations and Community Needs Assessment Committees replace Human Resources and Facility Committees.

Board members and management also need to agree on the information that the board receives from management. Boards prefer that management provide high-level, executive summaries of key issues at least one week prior to board meetings.

Boards that partner with management also take time to discuss the appropriate level of board involvement for each major decision-making process. Together they determine whether the board's role will be to provide input, participate in the decision, or simply to approve management's recommendations.

Setting clear job descriptions and performance expectations for both the CEO and the board also helps the partners work together. Sometimes it is necessary to create mutual guidelines for behavior to ensure that board members and management talk candidly about each other's performance against the expectations, and to hold each other accountable.

It is not easy to shift from a governance model that has clear rules and boundaries to a partnership that requires flexibility and a sense of trust. However, boards and management teams that function as partners believe that their contributions are heard and valued. As a result, they are better positioned to understand and plan for the challenges facing their healthcare organizations both now and in the future. That is clearly the role and responsibility of both board members and management.

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