"Drill Baby, Drill" Is Not Appropriate Boardroom Practice

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Heightened external scrutiny is tempting some boards and governance experts to challenge prevailing notions about the difference between governance and management. The new thinking is that although boards need to be strategic and avoid micromanaging, getting into the micro level of board oversight and decision making to ensure management is truth-telling should be a permanent part of governance. A few members have asked our opinion about this.

To us, this sort of thinking sounds like turning back the clock 20 years. The impetus for boards getting into more details is understandable. Corporate investors and government regulators are skeptical that boards of public companies and not-for-profits are rooting out management malfeasance and protecting shareholders and the public, respectively. Cases in point include the boards of AIG, Enron, the United Way, the Smithsonian Institution, the Getty Trust, and the Red Cross. The Internal Revenue Service is demanding that hospitals provide unprecedented details on the new Form 990 about their community benefit, executive compensation, and board practices to prove they deserve their charitable exemption. Not-for-profits have been pilloried on the front pages of national newspapers like *The Wall Street Journal* and local papers like the *Hartford Courant*.

The heat is on, and boards can't sit in the clouds dreaming strategic thoughts while trusting management to mind the store. Although boards make their greatest contribution when they focus at a strategic level, they can't become rubber stamps when exercising their fiduciary responsibilities for oversight and decision making.

Tools for Disciplined Oversight

A variety of governance practices and tools (many available through The Governance Institute) help boards carry out fiduciary responsibilities efficiently and effectively, supporting but not usurping management's work. For example, recruitment of board members based on written criteria is critical. There is no substitute for governance temperament and subject area competencies such as executive leadership, financial management, audit, and clinical care. Long-range financial plans, strategic plans with measurable goals, and dashboards of critical indicators all enable a board to monitor performance and spot problems before they worsen. Tough questioning of independent reports from outside auditors, consultants, general counsels, executive compensation advisors, and others allows the board to meet the "reasonable businessperson" standard for the fulfillment of a board's fiduciary responsibilities.

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When Is It Appropriate to Drill Down into Details?

At least four situations justify getting into what some might consider micro-details, but which in fact are appropriate governance activities:

1. **Red flags.** If a performance report indicates a significant, negative variance, trend, or faltering strategic initiative, the board should expect a detailed explanation and improvement plan from management. If the answer is not direct, fact-based, and convincing, the board has the right and responsibility to probe further. We're not talking here about boards nitpicking every measure or management decision, but rather, using board policies and headline measures such as patient satisfaction, operating margin, cash flow, market share, and community benefit to hold management accountable.
2. **Managerial misconduct.** If directors have cause to suspect management of misconduct or withholding access to information, the board is obligated to act. Lack of transparency cannot be tolerated. The former CEO of the Smithsonian Institution allegedly did not allow his chief financial officer or general counsel to speak to board members. That should have been a warning sign of an imperial CEO at best, and potential management misconduct at worst.
3. **Certain charges of ethical violations.** Normally, boards delegate investigations of alleged unethical conduct to the corporate compliance program or to a third-party such as the general counsel. However, certain circumstances call for direct board intervention. For example, when its high-profile basketball coach was accused

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of misconduct regarding one of his players, the board of Indiana University decided to lead the investigation itself.

4. **Areas of explicit regulatory responsibility.** The IRS clearly expects not-for-profit hospital boards to engage in diligent oversight of community benefit, financial assistance policies, external audit, corporate integrity, executive compensation, and the board's procedures concerning conflicts of interest. The full board can delegate detailed oversight of these matters to its committees, but committees should report fully and seek informed board approval.

Avoid the Slippery Slope

There's no question hospital and health system directors are better qualified, more informed, and more inquisitive than ever. Constructive skepticism and periodic contrarianism are healthy board behaviors—in moderation and at the right time. Executives and directors have to accept that active board engagement ultimately benefits the organization and need not destroy interpersonal collegiality.

When hospital boards slide down the slippery slope of focusing on micro-issues, they create a culture in which executives can become risk-averse at the very time healthcare needs innovation. Even more dangerous is that a board obsessed with the micro will miss larger strategic and policy matters that ultimately will determine the organization's success: Do we have the critical mass to achieve excellence alone, or should we merge? Are we doing all we can to partner with physicians to manage for quality and efficiency? Are we directing our community benefits to get the best results? Such questions are the stuff of great governance discussions.

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What most boards lack is not more detailed information, but rather, greater will to act on the information they already have or should get. More boards need to demand macro-level, comprehensive, dashboard-level measures in mission-critical areas. They need timely reports tracking major strategic initiatives against board-approved timelines and goals. They need the will to adopt clear policies on vexing issues such as physician competition, compensation, and recruitment—so they're not micro-managing every deal that management negotiates.

We have seen multiple examples of boards that watched passively as indicators went south or medical staff relations deteriorated—and did nothing until the only option was to fire the CEO.

The best senior executives want to be empowered and then held accountable, not work for a board that is either disengaged on one extreme or constantly in the weeds on the other.

We're wary of blurring the line between governance and management—a line that has taken years for hospitals and health systems to establish. "Drill baby, drill" may work in the oil fields, but not in the boardroom.