

GREAT BOARDS

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BP's Lapses Offer Lessons for Hospital Governance

Culture didn't match BP's commitments

This week's *Wall Street Journal* contains a chilling account of how oil giant BP PLC pursued profits and efficiency while giving lip service to the safety of its drilling operations. Hospitals and health systems can take away some lessons for their board oversight practices.

BP had an accident-prone history when Tony Hayward took over as CEO in May 2007. According to the *Journal*, Mr. Hayward repeatedly said "he was slaying two dragons at once: safety lapses that led to major accidents, including a deadly 2005 Texas refinery explosion, and bloated costs that left BP lagging rivals Royal Dutch Shell PLC and Exxon Mobil Corp."

Hayward said he would focus "like a laser" on safety and simultaneously improve BP's operations. In October 2007, he created a management system designed to enforce safety standards consistently across the organization. Yet, the *Journal's* in-depth examination of BP "shows a record that doesn't always match Mr. Hayward's reports of safety improvements."

The article quotes Jordan Barab, deputy assistant secretary at the Occupational Safety and Health Administration: "They claim to be very much focused on safety, I think sincerely. But

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somehow their sincerity and their programs don't always get translated well into the refinery floor."

BP's own documents and outside evaluations documented concerns that BP's culture put safety second. An internal BP presentation noted that in 10 "high potential" incidents at BP facilities in the Gulf in 2007, a common theme was "a failure to follow BP's own procedures and an unwillingness to stop work when something was wrong."

"Where was the board?"

That question, not addressed by the *Journal*, will clearly be asked in the days and months to come, as it always is following a seemingly avoidable corporate failure. It's too early to know whether directors had access to information that could have alerted them to safety problems and if so whether they acted appropriately. However, a number of aspects of BP's governance are eerily reminiscent of the Enron board before that company self-destructed.

On paper, BP appears to have great governance. The board includes nonexecutive directors with august backgrounds. It has adopted governance principles, and it posts extensive information about governance activities on its website. The board has a committee on safety, ethics, and environment assurance with a non-executive chairman. It holds executive sessions without any staff present.

Yet, in practice, the evidence to date suggests the BP board failed in its obligations to shareholders. The chairman of the board's safety committee (who only was appointed to the board

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in February) is an accountant by training who worked in the pharmaceutical field. None of the non-executive directors appear to have a background in industrial safety, although one is a petroleum geologist.

According to BP's website, the board's safety committee spent considerable time with an independent expert and so should have been aware of concerns about the company's culture. BP's own report on the committee's work says the expert noted many safety improvements, but "it was also recognized that the journey requires investment not only in engineering but in sustaining cultural change, and this will take many years to complete." In addition, the committee's oversight seems to focus on refinery operations. There's no indication on BP's website that the committee spent much time looking at the safety or disaster plans for drilling operations.

In September, under new CEO Robert Dudley, BP began to transform its safety culture. While denying its prior culture was flawed, BP created a new safety-and-risk division and announced plans to embed safety engineers into corporate operating units with "sweeping powers" to oversee, audit, and intervene in BP technical activities.

Lessons for hospital governance

It's too soon to render a verdict on the performance of the BP board. Future investigations will determine whether BP's directors vigorously questioned management and expressed a healthy skepticism over whether top management was truly supporting a pro-safety culture.

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However, BP's travails suggest important lessons for governance of hospitals and healthcare delivery systems. Three in particular stand out:

1. A board quality committee needs a true expert in medical quality and patient safety. Just being a dedicated community member or accomplished business executive or even a physician is not sufficient. Quality assurance and safety management are discrete professions and areas of expertise. When directors lack sufficient knowledge in a subject area, they can become overly dependent on management and may be reluctant to push back hard enough.

2. A board quality and safety committee must have information on the organization's safety culture, not just quality indicators. Culture determines whether written rules are followed or ignored. It appears that BP workers who had serious concerns about safety were reluctant to stop risky operations. In a hospital's operating room, would nurses stop a surgeon who failed to complete a pre-surgical checklist? Would physicians step forward to discipline a marginally performing colleague? To know, hospital directors need quantitative information on the organization's safety culture, such as survey and benchmark reports provided by the federal Agency for Healthcare Quality and Research (AHRQ). They also need feedback from the front lines, gleaned for example by accompanying senior management on patient safety rounds.

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3. Directors must have the will to challenge management and clinicians when necessary. While expertise and transparent information are necessary for effective governance, they are not sufficient. Directors have to be willing to speak out when they believe that there is insufficient attention to quality and safety priorities. Effective governance means the board does not accept what it is told without question.

The incentives of healthcare reform will make it even more imperative that hospital and health system boards act as guardians of the public's interest in safe and high-quality clinical care. The Patient Protection and Affordable Care Act is driving hospitals and health systems to reduce costs and improve efficiency to an unprecedented degree. These initiatives are necessary and appropriate but may increase risk.

No hospital CEO or chief medical officer knowingly takes action that will harm a patient. Then again, it's unlikely any BP executive thought his actions would lead to the explosion of the Deepwater Horizon, leaving oil spewing into the Gulf of Mexico.

The job of the board is the same no matter how committed and competent its executives are. Effective governance requires diligent and independent oversight and the courage to hold management accountable.

Barry S. Bader is the Publisher of the Great Boards newsletter and the President of Bader & Associates, governance consultants. An earlier version of this article appeared on the Great Boards blog on July 1, 2010.

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Bader & Associates

10050 East Calle de Cielo

Scottsdale, Arizona 85258

Phone: 480-614-0422

GreatBoards@gmail.com