

Effective governance: the roles and responsibilities of board members

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Running a health care organization is a team sport. It is very important that all members of the team—whether on the medical staff, in management, or on the board—understand the role of governance and what constitutes effective governance. Many misunderstandings about the roles of boards exist. Many people think that board members are paid, for example, which is not true.

My interest in the subject of governance began when I became chief executive officer (CEO) of an organization that was to establish a major health care and medical educational program in West Virginia. Five organizations merged to create the new organization; 5 boards also merged to create 1 board of 56 members. Two years after the merger, we created a governance committee to study the subject, and that's when my interest in governance began. While CEO of the Voluntary Hospitals of America, which grew from 30 to 850 hospitals during my tenure, I had the opportunity to visit with many boards. More recently, I have given 15 to 20 board retreats annually and have been an advisor to the Governance Institute. If I were allowed to focus on only one subject during the rest of my career, it would be governance.

Governance is fundamental. I have seen good boards become bad boards and bad boards become good boards. I have seen organizations fail because of problems at the governance level. Ineffective governance compromises the ability of the management to succeed. Effective governance, in contrast, greatly assists the organization. Effective governance has the following characteristics: it is efficient, allows a respectful conflict of ideas, is simple, is focused, is integrated and synergistic, has good outcomes, preserves community assets, and leads to enjoyment and personal reward for the individual board members.

In the sections that follow, I review the roles and responsibilities of boards, factors that increase board effectiveness, and the evolution of governance.

ROLES OF BOARDS

Boards have 3 primary roles: to establish policies, to make significant and strategic decisions, and to oversee the organization's activity.

Policy making

Effective execution of policy is necessary to fulfill the other 2 roles. Policies define focus and differentiate responsibilities among the board, the management, and the medical staff. Well-written policies lead to more efficient board functioning. Instead of having the same matter or very similar matters on the agenda repeatedly, the board can develop a policy that covers the issue and leave implementation of the policy to management. Boards have approximately 24 hours together each year, spread over regular meetings. It is essential to use that time wisely.

At the same time, board-level policies should be reviewed regularly. At Baylor Medical Center at Irving, where I chair the board of trustees, we asked a staff member to review past board minutes and extract all policies. We then refined and consolidated them. The board now reviews policies annually to see if they are still needed.

Decision making

Decision making involves making choices about the organization's vision, mission, and strategies. Boards make decisions about issues that are strategic and significant, such as whether to enter an affiliation agreement with another organization. As decision makers, boards can also delegate nongovernance types of decisions to others—and would be wise to do so.

Oversight

Oversight is an important function, but boards must remember that the organization is theirs to oversee, not to manage. Some boards cross the line and try to involve themselves in management. Nevertheless, in the oversight role, the board is legally responsible for everything that happens within the hospital, whether in the emergency department, a clinic, or a nursing unit. In the area of quality, for example, the board's oversight role may include setting the tone by stating that the organization is committed to quality; establishing policies related to quality, such as credentialing; ensuring that mechanisms are in place, such as committees, to establish a plan for quality; and monitoring implementation of the plan.

Board committees play an important role in the governance process. It is useful to periodically review the structure and func-

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tions of the committees and to ensure that everyone knows what to expect from them.

RESPONSIBILITIES OF BOARDS

Boards have numerous responsibilities: they oversee management, finances, and quality; set strategic direction; build community relationships; establish ethical standards, values, and compliance; and select a CEO and monitor his or her progress. I believe that the 2 most important tasks are selecting the CEO and establishing the direction of an organization. Although the management team develops the strategic plan, it is the board's responsibility to accept or modify the strategic plan and to set the direction. The board considers elements in the environment—such as growing competition and changing patterns of care—and develops a vision, a mission, strategic thrusts, goals, and tactics that respond to the environment, all the while showing the organization's values.

Financial oversight is a familiar job that boards usually do well. Boards ensure the use of financial controls; ensure that funds are prudently invested, considering cash management, banking, and contracting parameters; and establish policies related to budgets. Their goal is to protect the community's assets. Oversight of the quality area often involves utilization and risk management in addition to continuous quality improvement.

Attention to community relationships is a responsibility unique to not-for-profit institutions. Inasmuch as board members have contact with the community, they can be sensitive to the expectations and needs of its citizens and bring that knowledge to the board room. The focus is on all those the organization serves: consumers, businesses, elected representatives, payors, and collaborators. Boards are paying more attention to the quality of life in their communities. At Baylor Medical Center at Irving, for example, the board has adopted a community action plan developed by the management team.

The ethical standards of the organization are determined by the behavior of the board. Through its ongoing actions, the board decides what behavior will and will not be tolerated. These actions supersede ethical statements—however important such statements are—in showing an organization's true values. In recent years, compliance issues have risen to board-level responsibility as well, particularly as the media have reported people being sent to jail and organizations and individuals being fined millions of dollars for breaches in government regulations. Compliance is probably the only new issue that has been added to board responsibilities over the past 10 years.

When reviewing these responsibilities, it is important to note that the board as a whole, and not any individual member, has the authority. Further, the board exists only when it is in session. The committee is an appendage of the board, and the board can delegate certain tasks to a committee or an individual, but otherwise an individual board member has no prerogative. Thus, it would be inappropriate for a board member to walk in to a manager's office and ask to review the books or demand certain changes. Such actions, in fact, can cause much disruption. The CEO is the full-time agent of the board and is the only person directly accountable to the board.

THE "WHEEL OF GOVERNANCE": 3 INGREDIENTS FOR AN EFFECTIVE BOARD

The wheel of effective governance has 3 spokes: behavior, structure, and expectations. If one of these spokes breaks down, the board will have a flat tire, and the faulty governance process can compromise the organization's ability to move forward.

Behavior

Appropriate board behavior can be defined as functioning in accord with the board's roles and responsibilities. Thus, board members should know the difference between governance and management, see service as a responsibility of citizenship, and find enjoyment in such service. Appropriate behavior also has key characteristics, the first of which is respect—for the organization, the management, the clinicians, the employees, and other members of the board. Respect is basic, but it doesn't always exist. I've seen many boards whose members were antagonistic towards large segments of the medical staff, for example. Such behavior is distracting and counterproductive.

Respect leads to 2 additional behavioral characteristics that are needed: openness in the board discussions and confidentiality. The two go hand in hand. Last year, when I was asked to consult with a CEO and chairman of the board to improve the climate of the board and eliminate the cliques that seemed to be forming, I discovered that the problems had arisen because of breaches in confidentiality. Some board members were speaking casually about board activities among people at their churches or at parties; others felt they couldn't be open because of this breach. The more sensitive the issue under discussion, the more important confidentiality becomes. As one board chairman used to say, "What you hear here or see here or do here, when you leave here let it stay here."

Conflicts of interest also fall in the category of behavior. Some people believe that a potential conflict of interest precludes service on the board. Based on such a view, some hospital boards do not include physicians, claiming that they could have a conflict. I disagree with this view. An attorney friend of mine told me that there's no evil in conflict of interest; the evil lies in the hiding thereof. All boards need to have a policy about conflict of interest. Usually this policy requires all members to disclose potential conflicts and to abstain from voting on such matters.

Another behavioral element is distinguishing between the important and the unimportant. The board has limited time. If it spends hours and hours on trivial matters, it won't be able to address significant and strategic matters.

Finally, the board needs to work for consensus. In not-for-profit organizations, members don't "vote their shares," with one individual being able to carry the day. Instead, boards work by reaching a common understanding of the issues, dealing with the options, choosing one, and unanimously supporting the decision even if an individual initially voted against it. Unity on the final decision is essential; if it does not exist, some people will take advantage of the discord and create problems. Team players are needed, people who join the board because they support the organization's mission and values. Board members do not participate to implement individual agendas but to help the organization effectively meet its responsibility in the community. The

Table 1. Desired characteristics of board members

I. Knowledge

- Understands and subscribes to the organization's mission and values
- Understands the economics of health care and the plan and budgets required to achieve the organization's mission
- Knows the organization's current financial position
- Understands community demographics and needs
- Knows how to build partnerships with other community groups
- Understands the complexity of the organization's challenges
- Has a grasp of medical information, technology, trends, and consequences
- Knows the difference between governance and management
- Knows how to be a "team player": when to listen and when to speak up
- Sees social/volunteer service as a responsibility of citizenship
- Understands real estate, physical facilities, and land development

II. Skills

- Can work to build consensus
- Can work with and be supportive of administrative and clinical staff
- Is adept at strategic and financial planning
- Has strong communication skills
- Can deal with diverse groups and ideas in a constructive way
- Can interpret financial information
- Has experience in a field or endeavor that contributes to the disciplines that affect the organization, i.e., insurance/managed care, medicine, law, finance/banking, real estate, marketing, information technology, public policy, corporate management, etc.
- Knows how to differentiate the important from the unimportant

III. Attitudes and personal characteristics

- Feels that collaboration is necessary for success
- Possesses openness and honesty
- Subscribes to and practices a high moral standard
- Is optimistic but realistic
- Values personal growth and learning, particularly covering matters confronting the board and the organization
- Sees self as a servant leader
- Accepts that the board has the authority and that individual board members have none (unless delegated by the board)
- Is personally challenged by what is best for the organization and the community
- Can be decisive and comfortable with large-scale decisions
- Accepts that change is our constant companion

"goodwill quotient" is exceedingly important, and these behavioral aspects will contribute significantly to that.

Structure

Boards may not pay much attention to structure, thinking that it is covered in the bylaws and requires no further comment. Nevertheless, problems often arise from structure rather than behavior. For example, I've encountered several boards in which the chairman had served for ≥30 years, and members were discontented and ready for someone new. Many board bylaws do not address tenure. Whether the term limit is 2 or 3 years or something different, it is helpful if everyone knows what to expect. Dissatisfied members know that they will be able to vote for someone else, and volunteers may be more willing to take on the role of chairman if they know it is for a designated period. Other

Table 2. A sample board service commitment letter*

I, _____, recognizing the important responsibility I am undertaking in serving as a member of the board of trustees of this organization, hereby pledge to carry out in a trustworthy and diligent manner the duties and obligations in my role as a board member.

The organization will be governed by individuals selected for their experiences and personal attributes. No individual will be selected because of his or her membership in or representation of any particular constituency. Once selected, each individual shall be required to fulfill his/her fiduciary duty with care and loyalty in the best interest of the system and the people it serves. The following characteristics will be utilized in selecting people to serve.

My role: I acknowledge that my primary roles as a board member are 1) to contribute to defining the organization's mission and governing the fulfillment of that mission, and 2) to carry out the functions of the office of board member as stated in the bylaws.

My role as a board member will focus on the development of policies that govern the implementation of institutional plans and purposes. This role is separate and distinct from the role of the chief executive officer, who determines the means of implementation.

My commitment: I will exercise the duties and responsibilities of this office with integrity, collegiality, and care.

Pledge

- To establish as a high priority my attendance at all meetings of the board and committees on which I serve.
- To be prepared to discuss the issues and business addressed at scheduled meetings, having read the agenda and all background material relevant to the topics at hand.
- To maintain the confidentiality of what is said or seen at board or board committee meetings.
- To work with and respect the opinions of my peers who serve on this board.
- To always act for the good of the community and the organization.
- To represent the organization in a positive and supportive manner at all times and in all places.
- To observe the parliamentary procedures and display courteous conduct in all board and committee meetings.
- To refrain from intruding on administrative issues that are the responsibility of management, except to monitor the results and prohibit methods that conflict with board policy.
- To avoid conflicts of interest between my position as a board member and my personal life. If such a conflict does arise, I will declare that conflict before the board and refrain from voting on matters in which I have conflict.
- To support in a positive manner all actions taken by the board of trustees even when I am in a minority position on such actions.
- To agree to serve on at least one committee or task force and participate in the accomplishment of its objectives.
- To participate in the annual strategic planning retreat, board self-evaluation programs, and board development workshops, seminars, and other educational events that enhance my skills as a board member.

If, for any reason, I find myself unable to carry out the above duties as best I can, I agree to resign my position as a board member.

*Modified from Gillis J. 1995 *Board Member Manual*. Gaithersburg, Md: Aspen Publishers, 1994.

issues may concern the frequency of meetings or the size of the board.

I believe strongly in agenda creation and management. Since the board's deliberations are determined by the agenda, that one

document relates closely to the board's effectiveness. The agenda can be organized into 3 categories: items for information, items for action, and items for strategic discussion. This agenda organization helps members know what is expected of them and eliminates worry, for example, about having to vote on an item that is just for information. If executive committees and task forces are appropriately established and charged, the board can trust their efforts and avoid recreating what happened at a committee meeting. Committee suggestions and other smaller, non-controversial action items can be grouped into a "consent agenda," requiring only one motion and one vote. Background information on items in the consent agenda can be provided in the board book sent out before the meeting. Use of a consent agenda saves time and allows the board to focus on the most significant issues.

Structure also includes the nomination of new members. At Baylor Medical Center at Irving, we keep a matrix that indicates current members' skills in 8 essential areas. If attrition occurs, we look at the matrix and determine which skills are needed most. While the list of desired characteristics of board members developed by the Governance Institute is long (*Table 1*), it is understood that every board member will not have all the attributes. The average hospital board—now 12 members—is smaller than it used to be and includes physicians (both internal and external to the community).

Expectations

The final spoke consists of expectations or, more specifically, board members' knowledge of what is expected of them and what they can expect from others. One of the best ways to clarify expectations is to have new members sign a letter that outlines those expectations (*Table 2*). Such a document also makes it easier to remove a board member if, for example, his or her at-

tendance has been poor. It also serves to clarify the requirements of board membership when approaching a potential volunteer.

In return for their service, board members should expect respect, a proper orientation, proper flow of communications, advanced preparation for board discussions, judicious use of their time, educational opportunities, and the opportunity to contribute. In addition, boards should be able to expect "no surprises." Boards will be comfortable with the CEO if they feel that he or she is being open with them. More than anything else, surprises damage the board's comfort level; members worry that other important matters are not being communicated. Finally, the board member can expect to participate in a board that is well led, informed, experienced in proper board function, well sized, properly motivated, consistent, a unit, and respectful of management and professionals.

THE EVOLUTION OF GOVERNANCE

The focus of governance has evolved. When hospitals were being built after World War II, roles focused on stewardship, civic duty, and fundraising. Today, the focus is on management oversight, financial management, and community response. The focus of the future is on strategic performance. The board needs to ensure that it has the right expertise around the table to deal with critical issues of the time. Today, for example, boards may need expertise in information technology, just as in an earlier era they needed expertise in architecture and construction. Other critical issues to be addressed by boards today include declining reimbursements, physician relationships, consumer and community relationships, and philanthropy.

If boards understand their roles and responsibilities, have a proper structure including well-chosen members, exhibit appropriate behaviors, and know what is expected of them, they can live up to the challenges of the future and keep health care organizations on track for the good of the community.