
GOVERNANCE REFRESH FOR THE FUTURE

It might be an understatement to say that the healthcare field is navigating tremendous change — seismic might be a better descriptor. On the provider side in particular the fallout from the COVID-19 pandemic continues to strain an already stressed health system. Stories of workforce shortages, employee burnout, inflation, and mounting financial losses are featured in daily headlines. Many organizations are scrambling to rethink their strategies to meet the needs of an uncertain future — but what are the implications for governance?



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Given the turbulence in the market, boards should challenge themselves to test whether they have the optimal membership, diversity, skills set, structures, and practices to make good decisions and effectively fulfill their fiduciary obligations. One long-tenured health system board chair put a fine point on it, asking “Is our board designed for the past or for the future?” It is time for boards to rethink and refresh their governance.

GETTING STARTED

We do not view governance as one-size-fits-all. Different boards will have different challenges, depending on their unique context. For example, we worked with one post-merger health system whose primary aspiration was to adjust the decision rights between the system board and the subsidiary boards. This is in stark contrast to another board that was rethinking its practices due to a significant shift in its strategy and the need for stronger academic and community partnerships. Consider these principles in shaping the context for effective reform.

- **Lead with business needs.** Good governance starts with being clear about strategy and purpose. It should be shaped (and reshaped) based on the dynamically changing needs of your business. What are the challenges and opportunities facing your organization in its next stage of development? What are the implications for reshaping governance to support that agenda?
- **Consider the connection between leadership transition, strategy, and governance development.** A recent article from the search firm Spencer Stuart reports that more than 80 percent of hospital CEOs will turn over or retire within the next five years, if current trends continue.¹ CEO succession is a natural part of the organizational lifecycle. It is the board’s top priority and can be all-consuming. Don’t underestimate the impact of a new chief executive on governance, whether that be changes to the strategic direction or testing long-standing expectations about how to engage with the board.
- **Use the refresh process to test and prepare future leaders.** Those who participate in thinking through the dilemmas associated with changing governance will be better prepared to take up the work of implementation and to serve as future leaders themselves.

UNDERSTAND THE CURRENT STATE, IDENTIFY ASPIRATIONS, AND DESIGN FOR THE FUTURE

We find that opportunities to strengthen board effectiveness are generally found in four areas:

1. Membership and composition
2. Individual members’ behavior
3. Scope of deliberation
4. Structure and processes

An assessment of each area provides a shared understanding of your baseline, a starting point which is critical as you begin to explore your future aspirations and how to translate them into action. When a board knows what it is trying to achieve, it will inform the board practices, structures, and processes to best position them to do so.

- 1. Membership and Composition: Does the board have the right people at the table?** Many organizations maintain a matrix (whether explicit or implicit) to describe and track the skills, positions, and/or backgrounds they want to include among their board membership. The ideal mix of skills and backgrounds will vary over time, as the focus and challenges of the business change. Boards should occasionally review their ideal membership to determine whether there is an important skill, experience, or capability that is missing. Many boards have identified the need to bring greater diversity to its membership, including racial and ethnic, gender, and non-traditional experiences. Boards must also examine term limits and size. Considering the value of different skills and backgrounds must be weighed against the potential impact of increasing numbers on group dynamics.
- 2. Individual Members' Behavior: Do board members know what they are expected to do? Is the distinction between board and executive roles clear?** We regularly hear concerns that board members do not understand their role and responsibilities. Likewise, many board members worry they are not as effective as they could be because they don't know what is expected of them. Boards can get far off-track when the behavior of individual board members is not consistent with expectations—and/or the expectations themselves are not consistent with the organization's needs. A common consequence is that board members begin to take up management instead of stewardship. Occasional review of both the expectations and the behavior of individual board members is essential. This starts with effective onboarding and can be fostered through annual self-assessment processes.

- 3. Scope of Deliberation: Is the Board talking about the right things?** With so much change, perhaps the most critical question for healthcare boards is whether they are deliberating over the right issues. Should every item that is on the board's agenda ought to have been there? Did the board miss any important topics? Is the chief executive overly managing the discussion and the data that supports it? It is useful to consider how the board chooses to allocate its time within and across board meetings, including the scope and authority represented in the committee structure.

- 4. Structure and Processes: Do discussions result in good decisions? Is the board structured in the best way to leverage its collective expertise?** Most boards bring a formidable level of experience, skill, and intelligence to bear on the issues they debate—and yet, their ability to efficiently make good decisions can be greatly helped (or hindered) by the processes they use for their debate. Before jumping to a review of specific processes (e.g., “Do we have the right committee structure?” “Are the decision rights clear enough?”), boards may find it helpful to reflect on whether their decision-making processes lead to good debates with good outcomes, if they have the knowledge and information they need, and if they are efficient in their use of time.

Taking the time to explore these areas, in the context of strategy and purpose, will help boards make the adjustments they need to successfully face the future.

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REFERENCE

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