

Elements of GOVERNANCE®

Providing CEOs, board chairs, directors, and support staff with the fundamentals of healthcare governance

A SERIES BY THE GOVERNANCE INSTITUTE

Planning for Future Board Leadership



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Elements of Governance®

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Elements of Governance® is designed to provide CEOs, board chairs, directors, and support staff with the fundamentals of not-for-profit governance. These comprehensive and concise governance guides offer quick answers, guidelines, and templates that can be adapted to meet your board's individual needs. Whether you are a new or experienced leader, the *Elements of Governance*® series will help supply you and your board with a solid foundation for quality board work.



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The Governance Institute provides trusted, independent information and resources to board members, healthcare executives, and physician leaders in support of their efforts to lead and govern their organizations.

The Governance Institute is a membership organization serving not-for-profit hospital and health system boards of directors, executives, and physician leadership. Membership services are provided through research and publications, conferences, and advisory services. In addition to its membership services, The Governance Institute conducts research studies, tracks healthcare industry trends, and showcases governance practices of leading healthcare boards across the country.



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Table of Contents

1 Introduction

3 The Board Leadership Succession Plan: Components

- 3 Job Descriptions, Skills, and Competencies
- 4 A Process to Identify and Develop Potential Leaders
- 4 Board Leader Nomination and Selection Process
- 4 Initial Board Leader Orientation
- 4 Annual Board Leader Evaluations and Development
- 5 Managing Transitions
- 5 Handling Term Limits and Independence Issues

7 Conclusion

9 Appendix: Sample Job Description: Board Chairperson

- 9 Responsibilities
- 9 Additional Roles

Introduction



The world of healthcare governance has been undergoing enormous change. During the last 10 years, there was more change in the arena of corporate governance than all of the prior years in the history of corporate governance combined. This change has been and continues to be driven by many forces. For instance, many states now offer and provide formal board education and/or voluntary board certification programs. New Jersey went further and became the first state to actually mandate a formal director education as a condition to serving on the board. New Jersey also passed a variety of governance legislative initiatives, including requirements for conflicts of interest and a requirement for hospital boards to hold at least one public meeting per year (not unlike an annual shareholder's meeting).

Another related trend in governance is the emerging notion of competencies—is a board member “competent” to govern the organization? It stands to reason that a high-performing board is a well-trained, well-educated board. But all well-trained boards are not necessarily high performing. Two years ago, the American Hospital Association issued a report that described a set of skills and competencies necessary for healthcare boards,¹ essentially going beyond education and training by stating the importance of finding these attributes in potential board members during the recruitment stage.

Taking the issue further, the U.S. Securities and Exchange Commission (SEC) developed a requirement that publicly traded boards disclose to their shareholders that their board and directors (including committee members) are qualified to govern. The disclosure must detail particular experience, qualifications, attributes, or skills that qualify a person to serve as a director and on committees, such as risk management expertise, useful past experience, or a public accounting background. While it is true that these SEC requirements currently do not apply to non-profit organizations, they cannot be ignored. Case in point: the Sarbanes-Oxley Act does not technically apply to non-profits either (only publicly traded companies); yet, market forces, public demand, and the continued heightened awareness and desire for good governance have shown otherwise. Today, approximately 60 percent of non-profits comply (in whole or in part) with various provisions of Sarbanes-Oxley regulations. Collectively, these trends paint a picture of things to come, or what recent history has shown to be on the horizon.

It does not stop there. States attorneys general are increasingly interested in not-for-profit governance and are aggressively intervening in instances of malfeasance.² The Office of the Inspector

General (OIG) has offered a growing body of guidance on hospital and health system governance, especially as it relates to matters of corporate compliance and quality care. The IRS continues to focus on non-profit governance, notably in its revised Form 990; questions on this form reveal what the IRS believes is important to effective governance: transparency and accountability. One of the key concerns regarding transparency is healthcare board members' conflicts of interest. In some cases, those conflicts of interest occur at the very top of the organization—with the board chairperson. The examples in the news are usually the extreme or egregious situations, but we do see an increased awareness and reporting of all types of conflicts of interest.

To complicate things further, all of this is taking place as hospitals and health systems try to grapple with healthcare reform—what it means, its implications, how to prepare for its implementation, how to deal with the requirement for more quality and patient safety measurement/improvement, and how to understand the new payment methods.

All of these factors make serving on a board of a hospital or health system much more complex than in years previous, and it raises the bar for those who are actually leading the board (the chair, vice chair, committee chairs, secretary, treasurer, etc.). It also makes recruiting board members with the right skills and the time to serve a daunting challenge. These increased demands on boards and their individual directors require that more attention be paid to recruitment, education, and development of the board. The goal is to develop strong governing boards—high-performing boards—and to ensure that all board activities are beyond reproach. The formal leaders of the board have a critical role to play in creating effective boards and committees.

And yet, as we travel across the country working with boards, it seems that very few boards actually have in place a written, board leadership development and succession plan. Strong board leadership is not something that happens by itself. The board must plan for and recruit the talent it needs to bring to its leadership positions.

This *Elements of Governance*[®] outlines the main components of a comprehensive leadership development and succession plan for the board. It includes how to select and develop the people who will ultimately serve in key board leadership positions, and it describes the benefits of creating a formal, rigorous board leadership plan.

1 Center for Healthcare Governance, Blue Ribbon Panel Report, *Competency-Based Governance: A Foundation for Board and Organizational Effectiveness*, American Hospital Association, 2009.

2 For example, the New Jersey attorney general filed a lawsuit against Stevens Institute of Technology in 2009, accusing the organization of misusing donor money and excessively paying its president.

The Board Leadership Succession Plan: Components



The first step in developing a board leadership succession plan is to create a board-level policy that states the board's expectations regarding this important task. The list below includes the typical elements of such a policy:

1. Purpose of the policy
2. Responsible board committee (e.g., governance, executive, or nominating committee)
3. Positions included (see sidebar below)
4. Terms and independence requirements
5. Expectations of board leaders (time commitment, responsibilities, etc.)
6. Processes (planned and emergency succession), including when the processes will be reviewed and updated

Identify and plan for all board leadership positions, such as:

- Board chair
- Board vice chair
- Board secretary
- Board treasurer
- Standing committee chairs
- Standing committee vice chairs

Components of the board leadership succession plan should include:

- Job descriptions for each position (see the Appendix for a sample job description of the board chairperson)
- The skills and competencies needed for each position (these become the selection criteria for new leaders)
- A process to identify and develop potential board leaders
- The board leader nomination and selection process
- A process for further developing board leaders' skills/knowledge
- An evaluation process for assessing board leaders' effectiveness
- A plan for handling transitions from one leader to another

Benefits of Board Leadership Planning

- Ensures qualified leaders
- Allows for customized, individual development plans
- Prevents a leadership vacuum
- Minimizes interpersonal tensions
- De-politicizes the selection process
- Assures continuation of the culture and institutional memory
- Creates a planned, transparent approach to leadership development and succession
- Increases the likelihood of effective governance

Job Descriptions, Skills, and Competencies

Each leadership position should have a clear job description that is personalized to your organization. For instance, typically included in the board chairperson's job description is the need to work with the CEO to develop meeting agendas, preside at meetings, facilitate discussions and decision making, help reach consensus, and ensure that all of the various viewpoints are considered.

Beyond the typical responsibilities of the chair, consider what may be appropriate for the unique needs and culture of your organization. Should the board chair appoint members of board committees, or provide constructive feedback to other board members about how they are doing? What should be the board chair's relationship with the external community, physicians, and other key stakeholders? What additional roles should this person play? Will the board chair serve on any committees?

Once you have a complete job description, use this as a starting point to develop a list of requirements for someone to hold this position. For example, some organizations require that the board chair serve on the board for three years before moving into the chair position, and/or have chaired an important board committee first. It is also important to consider the requirements related to independence and conflict of interest. The IRS recommends that the board chairperson (and other officers) be independent (e.g., no material financial relationship with the organization, either directly or indirectly through an immediate family member).

The next step is to use the job description and position requirements to create a list of competencies or qualifications that are needed. The board leadership succession plan should ultimately include a description of exactly what criteria, competencies, skills, and behaviors the board believes its leaders need. Each organization has a unique culture, and the board must determine those skills and experiences that will best help the organization and the board. The view should be both short term and long term: what are some immediate strategic goals and objectives the organization is hoping to achieve in the next two or three years? Going beyond that, what is the vision for the organization in five or 10 years? What kind of board leaders does the organization need to achieve these goals and objectives?



Sample Leadership Competencies and Qualifications

Knowledge and Experience:

- Healthcare industry knowledge
- Understanding of the entire care delivery process
- Fiduciary duties, bylaws, and regulations understanding
- Governance/management distinction awareness
- Executive-level experience in a complex organization
- Service on the board of a large entity
- Business/finance knowledge
- Human resources/organization development knowledge
- Change management expertise

Personal Characteristics/Behaviors:

- Strong analytic and strategic thinking skills
- Collaborative leadership style
- Ability to promote teamwork and build consensus
- Good listening and communication skills
- Ability to communicate with and influence others
- Appreciation for perspectives of all stakeholders
- Ability to hold others accountable for achieving goals
- Desire to mentor others
- Ability to inspire people to do their very best
- Interest in continuous learning

A Process to Identify and Develop Potential Leaders

Next is to create a process by which you are intentionally identifying potential board leaders and developing them. The responsible board committee (e.g., governance committee) should start by identifying current board members who might be good leaders, based on the skills and competencies identified in the previous steps. Next, sit down with those individuals to find out if they have an interest in moving to a leadership position on the board at some point in the future. If so, you can start to develop a personalized education and development plan for those individuals. Such education and development plans can include the following:

- Require attendance at certain educational conferences and sessions (e.g., potential quality committee chair attends an Institute for Healthcare Improvement program).
- Create targeted developmental experiences (e.g., committee chair experience for potential board chairs).
- Provide access to the leadership resource center/Web site.
- Offer training for leadership roles (e.g., meeting preparation and facilitation).

Board Leader Nomination and Selection Process

This may be stating the obvious, but a simple first step in this process is to ask the existing board leaders if they are willing and able to serve another leadership term. You can't plan for leadership succession if you don't know when those leadership positions may open up. Additionally, if you are starting a board leadership succession plan for the first time, now is a good time to evaluate current board leaders. Are they fulfilling their responsibilities? Has their attendance and continuing education been satisfactory? Do they have any insurmountable conflicts of interest? Did they score highly on their individual performance evaluation? Has anything

changed in their lives recently that might prevent them from continuing to perform at the necessary level in their leadership position? A strong evaluation of current board leaders is important. This should happen on an ongoing basis as part of the leadership succession plan; this is discussed in more detail below.

When it comes time to actually identify and select new board leaders, the governance committee (or responsible committee) should start with its list of open leadership roles and compare that against the list of people available to fill those positions. The pool should include both those individuals who are being developed as leaders, but may not yet be a committee chair or officer, as well as those currently serving as committee chairs or in other similar leadership positions. Compare the competencies and qualifications for each position description. Often you may find that there is a small, core group of board members who are natural leaders—they are ready or able to take the helm.

Once the new leaders are identified, next steps include the responsible committee:

- Determining if the potential leader is/will be ready to assume the leadership position at the needed time
- Asking the potential leader to complete an application for the position
- Discussing all candidates for recommendation
- Meeting confidentially with existing and potential leaders
- Selecting nominees based on a demonstrated record of possessing the specific competencies/qualifications
- Providing a written document of the committee's recommendations to the full board

Finally, this should be a matter for full board discussion. The full board should understand and approve the process for how a board member moves into an officer position, as well as voting on the actual candidates for each position. Transparency of the board leadership selection process is a hallmark of good governance practices.

Initial Board Leader Orientation

Once your board leaders have been nominated and selected, they will need an orientation before beginning their new roles. The relevant committee should ensure that there is a personalized orientation to fill any gaps in each new leader's *in-depth knowledge* of the following:

- History, mission, vision, values, and strategic plan
- Organizational structure, bylaws, and state laws
- Board policies and procedures
- Meeting agenda and materials preparation
- Meeting management (e.g., facilitation, group dynamics, conflict resolution)
- Communicating with key stakeholders
- Specific knowledge (e.g., debt structure for finance chair)

Annual Board Leader Evaluations and Development

Like with all board members, board leaders need to be evaluated and provided opportunities to continue to develop and receive education as necessary. Most boards already conduct a full board self-assessment on an annual basis. Many boards are now also conducting individual board member evaluations, which include individual board leader evaluations.

Individual assessments should be taken with care and conducted in a manner that provides constructive criticism without offending the board member or board leader. The information can be delivered in a discreet manner through the governance committee,

for example. The board chairperson should be open to being evaluated and ready to accept any necessary changes in order to best perform his or her duties as chair.³

The individual leader evaluation should be considered simply a continuation of the process that you began when you were first educating and developing your potential board leaders. What does this individual need to know more about in the context of their new role? Provide board leaders with the opportunity to deepen their knowledge of each of the issues that they need to better understand. Appointment and reappointment to leadership positions on the board should take individual board member evaluations into account.

Managing Transitions

Part of the board leadership succession plan involves how to handle transitions from one leader to another. When one leader steps down, ideally you have a new person who is ready to step up to the role. The transition plan should clarify expectations of the outgoing leader and the incoming leader during the transition period. For example, what should the outgoing board chair do to help the incoming board chair? If you determine that a short mentoring period is ideal for your board, develop a plan for the board vice chairperson to learn the ropes in an ideal time frame before the board chairperson will step down, with specific steps for how this will be accomplished. The same can be done for other board officer and committee chair positions.

Handling Term Limits and Independence Issues

It is important to plan for and deal with term limits (if your board has term limits) as part of your board leadership succession plan. For example, what happens if the vice chair, who is expected to move into the chair position, is approaching the end of his or her

term? The board bylaws should include stipulations or exceptions for term limits where appropriate when dealing with these kinds of situations. Beyond that, be careful when you are selecting new leaders that you are respecting the purpose of term limits, to ensure that one person does not end up dominating board discussions, that there is sufficient new talent being brought on the board at appropriate times, and that the person or persons moving into leadership positions are and continue to be trusted and respected by the rest of the board members. If the term is being extended or renewed in order to fulfill a leadership role, that new leader should be someone who has a good working relationship with the rest of the board, and the remaining board members should agree with the reasons this person is being allowed to extend his or her term.

The question of term limits is very personal and unique to each board's culture. According to Governance Institute data, most boards do use term limits. A typical term for a board member is three years, and most often board members are allowed to serve three consecutive terms for a total of nine years.⁴ For board officers, a more typical term would be two years, with one additional term available for a total of four years in that same leadership position. One of the major benefits of having term limits is that it de-personalizes and de-politicizes those difficult times when a director or officer has become disruptive or is no longer fulfilling his or her responsibilities. Another related advantage of having term limits is it allows the board some predictive capacity to identify when there is going to be significant changeover, which is important when planning for board leadership positions. One concern is that there may be times when the more seasoned board members may be leaving at similar times, which diminishes the potential leadership pool. It is important to establish your term limits in such a manner that the board is not faced with too many openings at once.

3 For more detailed information on how to conduct individual board member assessments, refer to *Elements of Governance®: Individual Board Member Assessment* (2nd Edition), The Governance Institute, 2010.

4 *Governance Structure and Practices: Results, Analysis, and Evaluation, Biennial Survey of Hospitals and Healthcare Systems*, The Governance Institute, 2009.

Conclusion



Serving on the board of a hospital or health system is more complex than ever. Strong board leadership is essential. The increased demands on boards and their individual directors from the marketplace, regulatory bodies, healthcare reform, and economic pressures, require more attention to recruitment, education, and development of board members and a focus on board member competencies and qualifications.

A formal board leadership succession plan is an essential and necessary tool for governing boards to recruit and develop talented leaders. Further, this process helps to “set board leaders up for success” from the beginning, before they move into leadership positions on the board. It will help to ensure that your board leaders are engaged and prepared for the work they are doing; it will help to maximize their skills, experience, and time spent on the difficult and complex matters that boards must deal with today.

Board leadership succession planning, by itself, is an important exercise. But it also brings up a few other important governance issues to consider: the increasing challenges of recruiting qualified board members in today’s healthcare industry, evaluating current board member performance, and ensuring that board job descriptions are updated, current, and match the organization’s culture and unique needs. Without these governance fundamentals in place, planning for strong board leadership will be difficult.

Now is the time to address these issues, so that your board leaders have a good chance to succeed in driving the organization towards its goals. Non-profit hospitals and health systems will need to dig deeper and find candidates not only for the immediate future, but for five to 10 years out. Ideally, the candidate pool needs to include younger people with the qualifications and competencies necessary to govern in this complex environment. It is possible to achieve, though it may seem daunting. Like with most other aspects of healthcare governance, it simply takes intent and thoughtful planning.

Appendix: Sample Job Description: Board Chairperson



In a single phrase, the role of the board chairperson is to be the *keeper of governance integrity*. Governance integrity resides with the board, as does governance authority. The board's role must be defined first; the chair's role flows from that of the board. It is the chairperson, nevertheless, who leads the process that results in high-performance governance.

All position descriptions must be customized to reflect the organization's bylaws, policies, and culture.

Responsibilities

Leadership

- Keep the mission of the organization at the forefront and articulate it as the basis for all board action.
- Propose board goals and objectives and translate them into annual work plans.

Role Clarification

- Understand and communicate the roles and functions of the board, committees, medical staff, and management.
- Understand and communicate individual board member, board leader, and committee chair responsibilities and accountability.

Liaison

- Build cohesion among the leadership team of the board chair, CEO, and medical staff leaders.
- Act as a liaison between and among other boards in the healthcare organization.
- Represent the organization at official functions and be the board's spokesperson to the media.

Meetings

- Plan agendas and meetings for board and executive committee(s) (if an executive committee exists).
- Preside over the meetings of the board and the executive committee.
- Preside over or attend other board, medical staff, and other organization meetings.
- Facilitate discussions and decision making, ensuring all viewpoints are considered and clear decisions are reached.

Board Conduct

- Enforce board and hospital bylaws, rules, and regulations (such as conflict-of-interest and confidentiality policies).

- Set a high standard for board conduct by modeling rules of conduct in board bylaws and policies.

Committees

- Appoint board committee chairs and members in a consistent and systematic approach.
- Work with committee chairs to encourage effective disposition of responsibilities.
- Direct the committees of the board, ensuring that the committee work plans flow from and support the hospital and board goals, objectives, and work plans.

Education

- Ensure new board members receive comprehensive orientation.
- Mentor the chair-elect, other board leaders, and new board members as appropriate.
- Support and arrange continuing education for the board.

CEO Evaluation

- Lead the CEO compensation review and performance evaluation process.

Self-Evaluation and Annual Goal Setting

- Ensure effective board self-evaluation and annual goal setting.
- Ensure committees conduct self-evaluations and annual goal-setting.
- Seek feedback on personal performance as chair.

Succession Planning

- Plan for board leadership succession.

Additional Roles

- Serves as a voting member of the board
- Serves as an *ex-officio* voting member of all committees
- Requirements:
 - » Minimum of three years service on the board
 - » Served at least one year as one of the other board officers (vice chair does not automatically succeed to chair)
 - » Chaired the finance committee
 - » Independent, according to the IRS Form 990 definition
- Term: two years, and eligible to then serve one additional term, if elected

