Ensuring a Successful Board–CEO Relationship

BY PAMELA R. KNECHT, ***ACCORD*** LIMITED

Key Board Takeaways

Some trends have surfaced recently that can make it more difficult for boards and CEOs of hospitals and health systems to have successful partnerships. Below are some recommendations for proactive relationship building between the board and the CEO:

- Help new board members understand their role at the beginning of their board service.
- Develop a matrix that clarifies the decision authority and thresholds for the full board, committees, and the CEO for each governance responsibility.
- Ensure the board chair and CEO work together to identify needed education, develop focused agendas and materials, and keep the board at the governance level during meetings.
- Convene a session in which the board and the CEO discuss their philosophies of governance, agree on their approach, and develop a written agreement of their expectations of each other.
- Discuss performance vis-à-vis the expectations during annual reviews of the CEO and board.

In these complex and uncertain times, it is even more important than ever that the relationship between a board and its CEO is healthy and productive. And yet, boards of some organizations are experiencing difficulties as they try to develop a trusting partnership with their CEO.

For hospitals and health systems, the desire to build a relationship between a board and its CEO is not new. But some trends have surfaced recently that can make it more difficult to have a successful partnership.

Industry Transformation Stress

The first trend is the complexity and uncertainty in the external environment. The healthcare industry is undergoing significant transformation as it focuses on value instead of volume. Some board members react to these changes by demanding more of their CEOs than in the past. For instance, boards are requesting more educational sessions on the external environment, more financial forecasts, and more details regarding potential strategies.

Most of these requests are appropriate given the changing landscape, but some board members dig too deeply into issues because of their own anxiety about the unknown. In some cases, this increased attention is causing CEOs to feel the board does not trust the management team to "do their jobs."

Governance–Management Confusion

A related issue is when board members do not fully understand how their role differs from the role of management. This occurs most often with individuals who have not previously served on the board of a large, sophisticated organization.

Well-meaning, but inexperienced, board members often think their role is to probe into operations to find problems, so they ask questions at the wrong level. The CEO (and other executives) may become frustrated that their board is micromanaging instead of setting strategy, goals and policies, and stepping back.

Authority Disagreement

Another typical source of tension between CEOs and their boards is lack of clarity regarding decision making authority. For example, a board may think it should approve all expenditures, whereas the CEO may want the flexibility for some financial decisions to be made by management within agreed-upon thresholds.

Board Refreshment Progress and Challenges

A positive trend has been the intentional refreshment of boards. Many boards and their CEOs have made a concerted effort to add board members with needed competencies and perspectives. As a result, some newer board members have extensive experience as board members of sophisticated organizations. They often have high expectations of materials and of board meetings themselves. They expect to have focused, strategic-level discussions that have been teed up by materials in the packets. They do not have much tolerance for presentations that are too long or detailed. But this approach requires already busy executives to spend more time preparing for board and committee meetings.

Philosophical Differences

One of the most difficult issues to assess and fix is when there are basic philosophical differences regarding the role of a board. All board members and CEOs know it is inappropriate for a board to be totally dependent on management; boards should not be rubber-stamping decisions. And most agree that it is unwise for a board to dominate management, except in extreme cases like malfeasance.

The challenge is how to govern in the middle—between abdication and domination. The desired relationship is usually a partnership, but the proper balance of power can become an issue.

For instance, some people believe that governance should be slightly more "board-led" whereas others think governance should be more "management-led." Those that lean toward board-led often come from the not-for-profit world, where regulators, legislators, and stakeholders are scrutinizing the actions of public charity boards. These individuals believe that boards should play a highly active role in ensuring effective governance. For instance, they think the board recruitment process should be actively led by the governance committee and its chair, not by the CEO.

The board-led contingent also wants to be engaged in strategic planning early in the process. They are not comfortable with the management team developing major components of the strategy before an in-depth board conversation had occurred regarding assumptions being made and agreement on critical strategic issues to be addressed.

On the other hand, the individuals who favor a more management-led approach to governance tend to have more experience in for-profit businesses or large not-for-profit organizations. They believe that executives are "hired experts," and should be expected to do significant "staff work" before bringing issues to the board. They value a CEO who is actively recruiting potential board members and only bringing highly qualified individuals to the governance committee for their consideration.

The management-led group would also expect executives to bring to the board a complete situational assessment along with specific proposed strategies. They do not care for long processes that overly engage less knowledgeable board members in the discussion of possible strategies.

Proactive Relationship Building

Building a successful board–CEO relationship requires focused attention. The first step is to help new board members understand their role at the beginning of their board service. The orientation of new directors should include a written position description and mini-case studies that allow board members to work through scenarios that could be confusing. Assigning a mentor to each new board member can also help them learn the right level of questioning for this board.

A strong board chair can work with the CEO to make sure the board agendas and materials are at the governance level and allow for plenty of discussion. The chair should actively facilitate board discussions, bringing members back up out of operational issues as needed.

In addition, boards should develop a comprehensive authority matrix that clarifies the role of the full board, committees, and the CEO for each governance responsibility (e.g., provide input; recommend; approve). It may also be helpful to increase decision making thresholds for both committees and the CEO.

Perhaps the most powerful method of ensuring a positive relationship is convening a facilitated discussion with just the board and the CEO to discuss their philosophies of governance, agree on their approach, and develop a written agreement of their expectations of each other. These agreements should be reflected in both the CEO's and the board's annual performance evaluation so progress toward a productive relationship is regularly, candidly, discussed and improved.

These practices will provide the foundation for a stronger, more trusting relationship, which would be better for all parties—the board, the CEO, and the communities served.

The Governance Institute thanks Pamela R. Knecht, President & CEO, **ACCORD** LIMITED, *for this article. She can be reached at pknecht@accordlimited.com.*