

A Chronic Condition: Distinguishing Governance from Management

BARRY S. BADER, EDWARD A. KAZEMEK, PAMELA R. KNECHT,
DON SEYMOUR, & ROGER W. WITALIS, FACHE

EVERY BOARD WITH WHICH WE WORK HAS ASKED US THE following question: “What is the distinction between governance and management?” As a result, we view this as a chronic issue for boards. There are quite a few reasons why this question comes up so frequently.

The Problems

At a basic level, many hospital board members have never served on a board, so they literally do not know that the role of governing is different than that of managing. Many of those who have previously been board members were overseeing not-for-profit organizations that were much smaller and less complex than the typical hospital or system. A board member in that type of organization tends to be a “doer” (e.g., delivering meals to the elderly), an advisor to management on a specific functional area (e.g., human resources), or a fundraiser. There is not sufficient staff or funding to enable the board to function at the oversight level.

Another challenge is that many board members have been successful in business by executing, so they believe that the CEO wants them to provide specific advice on operational issues; they do not know how to or do not want to “oversee.” And, not all of those businesspeople have held senior-level positions in which they had to view the world the way a CEO does—across functions and stakeholder groups, from an elevated, strategic perspective.

Hospital and health system boards have the added challenge of governing in the healthcare industry. The father of modern management, Peter Drucker, once said, “There is no industry in the world that is as complex as the healthcare industry in America.” It is very difficult for even bright, successful executives to understand the clinical delivery of care or to fully comprehend the complex relationships among caregivers, employees, payers, and management.

In addition, there has been a sea change in society’s expectations of not-for-profit board members. It used to be that board members stayed at a very high level of oversight, developing goals and policies and monitoring management’s implementation of those policies and goals. Now, the news is filled with examples of boards that stayed too ‘high’ and did not know enough about what management was actually doing with the assets that belong to the public trust/community. Now, boards are being held accountable for oversight of some very specific responsibilities such as audit, compliance, executive compensation, and community

benefit. This has caused most board members to increase their diligence in oversight (which is positive). Unfortunately, with good intent, some have begun scrutinizing details at a tactical, operational level instead of asking tough questions at the governance level.

The Solutions

We believe there is a simple “template” for determining governance from management. The board should be doing the following:

- Ensuring focus on the mission
- Setting direction and measurable goals
- Developing board-level (not operational) policies
- Assuring systems and processes are in place and functioning well
- Monitoring progress and holding management accountable

This can be summed up as mission, strategy, goals, policies, systems, and accountability. Board members must be constantly vigilant, trying to determine if management’s actions are aligned with the mission; helping to reach the agreed upon strategy and goals; guided by the policies; and following approved, effective processes.

Ultimately, the board must ask tough questions when it appears that the mission isn’t front and center; policies aren’t followed, goals aren’t being met, processes aren’t being followed or actions aren’t achieving the desired results. Board members should keep asking tough the questions until they have received satisfactory answers.

The board should work in partnership with the CEO to determine “what” will be achieved (e.g., zero tolerance for preventable harm to patients) and allow the CEO and the senior management team to determine ‘how’ the strategy and goals should be executed or achieved. Then, the board must have the processes in place to regularly, consistently monitor progress toward the goals, and the courage to hold management accountable when the goals aren’t being met.

To help in this effort, we have developed a matrix for each of the board’s six core responsibilities (see table on page 2). The chart includes sample governance-level questions as well as examples of tactics that are management’s work, not that of the board.

We hope that each board will meet with its CEO, using this tool or another, and talk about how best to work together to improve the health of the communities served.

Governance vs. Management Matrix

Core Responsibility	Governance-Level Questions
Setting Strategic Direction	<ul style="list-style-type: none"> • How will we increase access to healthcare services in the outlying areas of our community? • Why has our market share in orthopedics continued to decrease over the last five years, and what is management doing to reverse the trend? <i>(The board should not decide exactly which piece of property should be purchased for a new clinic)</i>
Financial Oversight	<ul style="list-style-type: none"> • What is our targeted bond rating and how well are we doing towards achieving that goal? • Why is ___ (insert the measure) trending down, and what is management doing to correct it? <i>(Not analyzing the budget, line-item by line-item to determine how to reduce costs by \$100,000)</i>
Quality & Patient Safety	<ul style="list-style-type: none"> • What are our clinical quality and patient safety outcomes vs. our own targets, our peers' scores, and national benchmarks (e.g., CMS core measures)? What is management doing to improve our rank/scores? • What serious, care-related adverse events have occurred in the past year? What did we learn from these events? What processes did management put in place to ensure they won't ever happen again? <i>(The board should not decide whether Mary should be promoted to Director of Quality Improvement)</i>
Management Oversight	<ul style="list-style-type: none"> • What annual goals will we set for the CEO's individual performance and the performance of the organization as a whole? • Why hasn't the CEO accomplished the ___ goal, and what is he/she doing to ensure achievement of that target? <i>(The board should not encourage nurses and physicians to come to the board with their concerns about the CEO's performance)</i>
Advocacy	<ul style="list-style-type: none"> • What percentage of our revenues will be dedicated to community benefit? • Why hasn't management assessed the community's healthcare needs in the last three years, and what is management doing to correct that situation? <i>(The board should not be involved in labor negotiations)</i>
Board Self-Assessment and Development	<ul style="list-style-type: none"> • What improvement goals does management think we as a board should set for ourselves? Are we micromanaging? • What should we do differently to ensure a healthy, collaborative relationship with the CEO and the senior management team? <i>(The board should not include any managers other than the CEO in a session devoted to board enhancement)</i>