

BOARD RECRUITMENT AND RETENTION: BUILDING BETTER BOARDS, NOW...AND FOR OUR FUTURE

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Preface

During the last 20 years, America has had its share of struggles—everything from war, terrorism, the “Great Recession,” natural disasters, and dogged unemployment that continues to haunt and hurt so many. There’s an old cliché that what doesn’t kill us makes us stronger—a fairly non-consoling thought for those who struggle to endure. However, sometimes things do change for the better.

IN RECENT YEARS, A NEW SALUTATION HAS SOMEHOW slipped its way into our daily discourse, in our travels, in our conversations, as we meet and perhaps now have gained a greater appreciation for others: the heartfelt phrase, “*Thank you for your service.*”

We hear it and say it most especially to and for those who serve and protect us: the police, firefighters, emergency medical workers; the excavation and construction workers who labored at Ground Zero in Manhattan for months on end; and of course, the many Americans who fought and continue to fight for the freedom and blessings of liberty that we enjoy.

So to, the American healthcare system has been, and continues to struggle with the challenge, pain, and uncertainty of change. In the midst of our transforming healthcare delivery system one might contemplate and ask: what is the role of the board? What about governance? Who will oversee our new systems of care, and who will be there to safeguard and heal our local communities?

Hospitals and health systems are not unused to healthcare shortages and the need to develop plans and strategies to recruit and retain professionals to serve our communities: nurses, primary care physicians, physician specialists, allied-health practitioners, pharmacists, physical therapists, and the list goes on. But now, our hospital and health system governing boards and

directors are confronted with a new challenge, a new and different kind of “healthcare shortage”—finding new and innovative directors who are willing to dedicate the time, energy, and resources to do what governing boards quietly and unassumingly do and have done for many years: ensure that when our neighbors and loved ones are ill, injured, and diseased, or in need of comfort, support, and healing, that our healthcare delivery system can address these needs.

Thus, healthcare leaders are beginning a new journey to recruit healthcare directors with the skills necessary to move hospitals and health systems forward into an accountable, value-based healthcare system. As we look at this new and salient challenge in this white paper, we will review and analyze data, and assess and explore issues, challenges, and indeed opportunities to identify, discover, recruit, and retain new and innovative leaders to whom the governance torch shall be passed. But before we begin, it is perhaps only appropriate to start with the obvious; to recognize and appreciate the men and women who rarely receive a letter, an acknowledgement, or word of appreciation for countless, usually uncompensated hours of philanthropic service to our communities; to the men and women who serve our nation’s hospital and health system boards, to simply say...

“Thank you for your service.”

Executive Summary

Not unlike the healthcare industry itself, hospital and health system governance is also in the midst of fundamental change. Governing boards are increasingly becoming an important factor for hospital and health system success. For many years, hospitals were able to rely on community leaders and volunteers to serve on their local hospital boards, to act as stewards for the most important community asset: healthcare. However, this can no longer be assumed.

MANY HOSPITALS AND HEALTH SYSTEMS ARE REPORTING that it is increasingly difficult to identify, recruit, and retain qualified board members.

For this white paper, we conducted a survey of board members and CEOs from Governance Institute member organizations in fall 2012 to ascertain current experiences and potential trends related to board recruitment challenges. Of about 200 respondents, almost 50 percent affirmed that it is becoming increasingly difficult to recruit new (qualified) board members. In addition to this survey, we conducted follow-up interviews with some of the CEOs and board members who responded to the survey, as well as recruiters from two executive search firms and a healthcare attorney.



A summary of key findings from our research for this white paper include:

- Respondents to the 2012 Governance Institute member survey noted that “a strong governing board” would likely give hospitals and health systems a “strategic competitive advantage.”
- Most respondents agree that they need to recruit and retain “younger” directors; further, many believe that in order to do this, boards need to change “how they are doing business.”
- Some governing boards are extending beyond the reach of their own communities to recruit board talent.
- The vast majority of governing boards agree that they would benefit if they had a “governing board talent pool.”

Our assumptions based on the 2012 survey, follow-up interviews, and movement in the industry, include:

- Similar to other components of the business enterprise, governing boards are now beginning to “compete for talent.”
- The increased emphasis on and importance of governance will continue to heighten the “institutional and organizational importance” of governance (i.e., that it is just as important to have a “strong governing team” as it is to have a “strong management team”).

- Governing boards could benefit from deploying traditional human resources principles to the governing board (i.e., considering the governing board to be part of the organization’s human capital). This includes applying principles of “talent management” to recruit, retain, and develop governing board talent to enable hospitals and health systems to continue to transform how they provide and deliver health services, both now and in the future.

This white paper provides a framework for implementing a board talent management plan, which includes the following steps:

1. Conduct a board talent risk assessment
2. Connect board talent needs with the organization’s strategic plan
3. Identify board member competencies
4. Examine talent gaps
5. Cultivate a talent/candidate pool and validate talent
6. Implement the plan and update on a regular basis

Within this framework, the board must view director recruitment as a significant part of the organization’s strategy—continuous governance improvement through a proactive, rigorous process of pooling board talent that is ongoing and directly integrated with the organization’s strategic plan and future vision.

Hospital and health system boards have grappled with clinician shortages. In fact, most hospitals now commonly use medical staff development plans, policies, and procedures to measure and monitor the need/demand for healthcare professionals and to guide their organizations on when, where, and how to recruit in order to meet the needs of the communities they serve. Ironically, governing boards must now apply similar tactics to address a shortage of board talent.

Effective governing boards are more than a collection of individuals; rather, each board member should have an indispensable purpose as it relates to both the board and the organization. This is especially true and important during this time of change when strategy is critical. In essence, the governing board is an avenue for hospitals and health systems to obtain necessary and important strategic human capital that can help them transform the future of healthcare.

Discussion Questions for Board Members

The following questions form a starting point for the board's discussion of the ideas presented in this white paper:

- What is our current board recruitment process? Does it need updating?
 - How do we identify the specific skills and expertise needed on our board?
 - Where should we look for new board talent?
 - How do we “attract” board talent?
 - How does our current board talent relate to the strategic plan? Will there be talent gaps in the short term and/or longer term based on our organization's strategic needs and future vision?
 - If so, what are we doing to address these gaps?
- What are the benefits to our board and organization to expand our recruitment efforts outside our community or region to recruit the “best team” as other industries do?
 - Should we consider using a professional recruitment firm to assist in our efforts? What are the pros and cons of doing this?
 - Should we consider implementing a board talent management plan? What steps need to be taken to do this? (Do we need to start from scratch or enhance our existing process to create a talent management approach?)
 - Finally, how are we addressing this pillar of governance within and as it affects the overall intentional governance spectrum? (In other words, how do our board recruitment efforts affect our board's ability to perform effectively?)

Introduction

A team, group, or organization can only perform in a manner equal to the highest level of its combined individual talent (the collective talent). This is most obvious in sports, where teams compete to identify, attract, and recruit the very best talent with the hopes and expectations that it will produce the desired outcome: a victory.

THIS CONCEPT HAS BEEN EMBRACED BY BUSINESS ORGANIZATIONS, including hospitals and health systems. Businesses everywhere recognize both the necessity for, and importance of, their organization's human capital and underlying talent—from the mailroom to the CEO's suite.

Governing boards of not-for-profit hospitals and health systems are, for all intents and purposes, not unlike a team: a collection of individuals with a common goal of furthering the charitable mission of the underlying organization. However, boards are not only a team, but they are also the key leadership body that has the ultimate responsibility (and accountability) for the organization's performance. For that matter, research continues to support the proposition that a strong and effective governing board is more likely to result in a higher performing organization.

In this white paper we examine the burgeoning challenge of recruiting and retaining hospital and health system directors. We reconsider the governing board within the broader context of both the underlying organization and its structure and operation—regarding the governing board, in essence, as strategic human capital. We provide a recommended framework of “talent management” to help boards deal with this challenge on an ongoing basis, both for immediate and especially future governance needs—with an emphasis on recruiting the kinds of directors now that will be able to successfully move healthcare organizations into their desired future state during a time of immense change and transition in the healthcare industry.

Looking Back: Intentional Governance

The genesis of this white paper can be traced to The Governance Institute's 2010 signature publication, *Intentional Governance: Advancing Boards Beyond the Conventional*.¹

Hospital and health system governing boards do, learn, and are responsible for many things; but the most important thing boards do is govern. Governing boards typically know that they are ultimately responsible and that they are accountable, including (and most importantly) for quality of care; yet, good governance remains difficult to define, measure, and quantify. As one board chair said, “It's hard to measure [good governance] but you know it when you see it.”

Intentional Governance was an effort to do just that: provide a measurable model or vehicle for governing boards to consider

as they pursue their own governance journey to oversee their healthcare organization for the benefit and betterment of the communities they serve. The underlying thesis was simple: we are more likely to improve and succeed in matters when we act with intention, using a deliberate, iterative approach as opposed to relying on chance.

So, rather than having governing boards meander, month to month, steeped in what can sometimes become routine, mechanistic, or even “ritual” oversight, we proposed that the governing board ask itself questions like: what are we supposed to be doing? Are we doing it? Do we have systems and processes in place to build a healthy, strong, vibrant, and sustainable governing board—everything from board recruitment and development, right through plans and processes for leadership succession?

The purpose of *Intentional Governance* was to provide guidance, direction, and insight on how hospitals and health systems can find answers to these questions and build high-performing governing boards. Meanwhile, it became apparent that many healthcare organizations were struggling with what very well might be the most essential ingredient to good governance: finding competent, qualified, and interested people to serve on the board.

In this light, for this white paper we conducted new research via an online survey of Governance Institute members and interviews of CEOs, board chairs, an attorney, and executives from search firms to learn more about how today's hospital and health system boards recruit and retain directors, and to find practical, innovative ways to deal with the challenges related to seating the right people at the board table, not only now, but for the future.

The chapters that follow introduce the challenges and issues identified in our recent research regarding board talent and recruitment, and then provide recommended steps to take to implement an ongoing board talent identification, recruitment, and retention process, beginning with treating governance as an organizational priority and viewing board members as human capital (of equal importance to the organization as physicians and senior management), followed by conducting a board talent risk assessment, creating a director talent pool, and developing a board talent management plan that is integrated with the organization's strategic goals to achieve its future vision. The aim of this white paper is to help non-profit healthcare organizations on their journey to fulfill what very well may be the new, “most important legacy”...to identify and recruit the next generation of leaders.

1 Written by Sean Patrick Murphy and Anne D. Mullaney, published in June 2010.

Chapter 1. Building an Effective Board

“We shall not cease from exploration, and the end of all our exploring will be to arrive where we started and know the place for the first time.”
—T.S. Elliot

IN *INTENTIONAL GOVERNANCE* WE IDENTIFIED THE ELEMENTS, practices, and processes that can help hospitals and health systems build, maintain, and operate an effective governing board. Our prescription was and continues to be “intentional governance: the deliberate and intentional process that will enable governing boards to build, transform themselves, and realize their highest potential.”² In doing so, we identified seven key and discreet—but interrelated and connected—elements, or “pillars” of good governance. The first pillar is *board recruitment*.

Few would dispute the proposition that every team or organization is only as good as the individual components (or in this instance, board members) that compose and comprise, and collectively produce the sum of its parts: the governing board. In fact, one might even go so far as to intuitively govern (as opposed to intentionally govern) and stop there: to summarily conclude that a good board comes down to the quality, skills, and talent of the men and women who comprise the board. Indeed, board recruitment and retention is so important that we have conducted substantial research, time, and analysis to this white paper in hopes that it will help guide your organization: to stimulate thought and provoke further discussion about this important issue.

However, as we learned from our work in 2010, high-performing boards rarely are random events. In order to succeed in building an effective, sustainable governing board, we need to reflect on the many ways board recruitment affects all other areas of board effectiveness. In order to do so, the paragraphs that follow revisit the other governance pillars in *Intentional Governance* (illustrated in **Exhibit 1**).

In addition to board recruitment and retention, governing boards need to focus on the remaining six components to building a high-performing board. These include:

- **Board structure.** Now more than ever it is important to revisit governing board and committee structure, not only because we are entering another phase of rapid industry consolidation, but also because of increasing hospital–physician collaboration and integration. All of this raises new and complex questions as we transform from an “acute care-centric” model to a value-based, population health model. There is enormous benefit in periodically reexamining governance structure, regardless of our transforming delivery system. Revisiting governing board organization and structure is hard work, but well worth it, especially in a marketplace where it is increasingly becoming difficult to find and retain board talent.
- **Board culture.** It is interesting to note the most important and critical component of good governance continues to remain the most elusive: board culture. Every board has its own unique culture. The question is whether a board’s perception of its culture is accurate and that its actions correspond to the organization’s mission, vision, and values—thus directing the organization’s culture. Taking time to reflect on, refine, enhance, and articulate board culture is worth every minute of time and energy that a board puts into the process.
- **Formal board education and development.** Formal director and board education is rapidly emerging as the standard of care in governance. Words that once appeared only to apply to the medical staff (e.g., board certification, continuing education) are now being echoed in the boardroom. While there currently are

Exhibit 1. Intentional Governance Spectrum

Board Recruitment	Board Structure	Board Culture	Education & Development	Evaluation & Performance	Continuous Governance Improvement	Leadership Succession Planning
Organizational needs	Proper size	Clear behavior expectations	Formal orientation	Board assessment	Board mission statement	Written policy statement
Board needs	Committee structure	Encourage robust engagement	Formal board education plan	Committee assessment	Track board performance	Leadership position descriptions
Requirements: training/education, experience	Board role: clear definition, responsibilities/accountabilities	Mutual trust and willingness to take action	Education goals and process to meet goals	Director assessment/peer review	Evaluate efficiency/effectiveness beyond annual assessment	Selection criteria
Stakeholder analysis	Distinction between managing and governing	Commitment to high standards	Resource allocation	Commitment to making changes	Continuous process analysis	Identification and development
Community representation	Effective meetings		Certification (?)	Appointment/reappointment qualifications	Challenge and change culture	Performance evaluation Connection to recruitment

² Murphy and Mullaney, 2010, p. 1.

no national standards, more directors are getting more education and more often—something that is not surprising, especially considering the substantial transformation and complexity in healthcare.

- **Evaluation and performance.** For years, evaluation and performance were matters for management. However, this is no longer the case. Healthcare leaders across the country agree that governing boards should apply these same tools and instruments to themselves.
- **Continuous governance improvement plan.** High-performing governing boards are often compared to organizations and teams. Once a board accepts this premise, it is easy to concede the importance of continuous improvement. Governing boards are no longer a collection of individuals. Ultimately, a governance

improvement plan will force the board to revisit practices, processes, and people to make certain that they truly *add value*.

- **A formal leadership succession plan.** It happens when they least expect it. Directors look around at each other only to realize: there is no one left, no one willing or able to do the job. Leadership succession planning for the CEO alone is no longer an option. The consequences of failing to have a board leadership succession plan are more significant than most boards know. This closes the intentional governance “loop” and brings boards back to the beginning, and the key challenge this white paper focuses on: recruitment.

With this context, the remainder of this white paper takes a closer look at the first, and one of the most important pillars of intentional governance: board recruitment and retention.

Chapter 2. The Board Talent Shortage

In this chapter we will examine the core challenge—the emerging difficulty in obtaining and retaining hospital and health system directors—which we refer to as the “board talent shortage.”

WE BEGIN BY PROVIDING INFORMATION THAT SUPPORTS THE challenges many hospitals and health systems are experiencing in this regard. We will then examine some of the potential root causes behind the board talent shortage, in the hope that this may provide insight not only into the problem but potential solutions. Finally, we will look at common characteristics of some organizations that are not experiencing problems regarding board recruitment and retention, to provide insight into some of the reasons these organizations appear to be insulated (at least for now) from these challenges.

Board Recruitment Challenges

For many years, hospitals were able to rely on community leaders and volunteers to serve on their local hospital boards, to act as stewards for the most important community asset: healthcare. However, this can no longer be assumed. Many hospitals and health systems are reporting that it is increasingly difficult to identify, recruit, and retain qualified board members.

In our 2010 research for *Intentional Governance*, over 63 percent of board members and CEOs indicated that they were increasingly finding it difficult to recruit new hospital and health system directors. A recent survey of Governance Institute members in fall 2012 corroborates these findings. In our 2012 survey (employing a different survey methodology),³ almost 50 percent of board members and CEOs affirmed the challenge: that it is increasingly becoming more difficult to recruit new board members.

However, the growing shortage of people willing to serve on non-profit boards has been a problem in the making. A 2002 study revealed that there was an estimated shortage of 1.2 million directors—persons needed to serve on non-profit boards—and that an additional 1.8 million board seats become available each year.⁴ However, unlike smaller non-profit, charitable organizations, hospitals typically enjoyed advantages, differentiating as compared to other non-profits, including:

- A clear and important purpose: healthcare

3 In fall 2012, The Governance Institute conducted an online survey of its member CEOs and board members (from not-for-profit hospitals and health systems across the U.S. of varying sizes and in varying urban, suburban, or rural locations) and received 197 responses (an 18 percent response rate).

4 *Board Recruitment in the Non-Profit Market* (research study), Booz-Allen-Hamilton, 2002. A summary of findings is available at www.boozallen.com/media/file/116778.pdf.

- Strong community connection
- An indispensable community asset
- Collaborating with other “top” community leaders
- Recognition and prestige

Hospital and health system boards have grappled with clinician shortages. In fact, most hospitals now commonly use medical staff development plans, policies, and procedures to measure and monitor the need/demand for healthcare professionals and to guide their organizations on when, where, and how to recruit in order to meet the needs of the communities they serve. Ironically, governing boards must now apply similar tactics to address a shortage of board talent.

The board talent shortage goes beyond challenges associated with identifying and recruiting new directors, but also retaining them. Our 2012 survey data indicated that nearly 30 percent of the director and CEO respondents indicated that “it seems to be getting harder to retain” directors than it was compared to years ago.

What Has Changed?

It is difficult to attribute with certainty any one reason why hospital and health system boards are having more difficulty recruiting and retaining directors. However, a lot has happened over the last 30 years, and the following are just some of the reasons why we are facing the specter of a diminishing governing board talent pool from which hospitals and health systems may draw.

Governance: More At Stake

Increasing demands, public scrutiny, numerous scandals, regulatory changes, and heightened public awareness of, and expectations for, governing boards have made the job more difficult and time consuming:

- **Working harder:** the 2010 *Intentional Governance* research indicated that almost 85 percent of directors and CEOs agreed governing boards are “working harder” on board matters than they had to in years past.
- **Regulatory pressures:** in the same survey, almost 96 percent of directors and CEOs indicated that they are experiencing increasing regulatory pressures that are impacting their organizations.
- **Liability and time commitment:** for decades, obtaining a “sitting CEO” was the gold standard for a new board member; but



CEOs, fearing the liability and time commitment required, are cutting back dramatically on the number of outside corporate boards they will take on. Plus, their own company boards are restricting them from outside board service.⁵

Healthcare: A Complex Business

Revenue reductions, increasing costs, concerns about quality and safety, the ongoing shift away from acute care, consolidation, conflicts of interest, and competition are just some of the factors that have begun to change not only how healthcare is delivered, but also the public perception about hospitals, health systems, and board work:

- **Public perception:** almost 30 percent of respondents surveyed in 2012 indicated that 10 to 15 years ago their community used to have a greater appreciation of, and value for, their community hospital, than they do now.
- **The hospital as a “business”:** over 60 percent of 2012 respondents agreed that in recent years, the public has begun to view their organization as a business rather than a non-profit, public service.
- **Community and complexity of healthcare:** over 65 percent of 2012 respondents agreed that if their community really understood their organization’s mission and purpose, they would want to become more involved and collaborate with their hospital.
- **Complexity of governance:** only 30 percent of 2012 respondents agreed that their community understood the primary role of their hospital’s or health system’s governing board.

Meanwhile, the vast majority of respondents in 2012 thought their boards were effective, engaged, and doing good work. This suggests that many boards and CEOs value and believe in the good work that they do, but also perceive that, in many instances, their community does not, and that they have lost their “community connection,” the lifeblood of service and volunteerism.

The need for, and the value and benefits of, a vibrant board and a strong “community connection” was corroborated by hospitals and health systems that conversely reported on the 2012 survey that they currently are not having problems recruiting and retaining directors.

Characteristics of Organizations with No Shortage

During a series of focused interviews conducted at the end of 2012 and early 2013, directors and CEOs from some organizations indicated that recruitment was not necessarily a problem: something important, something that takes time—but not a major problem. When asked why, interviewees typically reported their good fortune to the following:

- **Highly desirable:** directors and CEOs from some hospitals and health systems explained that their organization is “highly desirable” and board seats are, in some instances, “coveted” appointments. Typical examples of these organizations include prestigious academic medical centers, large (and often progressive

and financially strong) hospitals and health systems, large or primary employers in the community, and legacy organizations (those with a well established, grounded community or regional reputation and/or brand).

- **Serendipity:** some hospital and health system leaders explained that they are located in a community that values its local community hospital—communities of talented men and women who have been, and continue to be willing to serve on the board.

Serendipity... “We have many good, strong families and leaders that any hospital or health system in the country would envy; they step up year after year and support not only our hospital, but agree to serve on our board. Again, we are fortunate, lucky, and blessed.”

—*Stephen Wolfe, President & CEO, Indiana Regional Medical Center, Indiana, PA*

- **Engaged with community:** some directors and CEOs we spoke with attributed their lack of shortages and/or recruitment issues to strong, deep community connections that their organizations have maintained. In fact, one hospital CEO indicated that he has seen an uptick in the number of qualified community members interested in joining his board.

“I think a lot of it has to do with increased transparency that we have implemented... our programs, the kind of service agendas that we have, the emphasis on serving the community that I think resonates with people who have an interest in wanting to make a contribution and make a difference.”

—*Robert Wise, President & CEO, Hunterdon Healthcare System, Flemington, NJ*

- **Engaged with each other:** finally, the directors and CEOs we spoke with from these organizations reporting no shortages or challenges recruiting (and especially retaining) believe that can be credited to the fact that their boards work well together (i.e., make good use of their time and have effective meetings; essentially, boards that are “engaged” in good governance).

Recruiting and Retention Challenges for Public Hospitals

Public hospitals and health systems (state, county, city, and/or municipal hospitals) have their own challenges when it comes to board recruitment and retention. In most instances, public hospitals and health systems are limited (and have less control) with respect to the board candidate pool and the recruitment and appointment process.

5 James Kristie, “The Future of Board Governance: the Board as a Mosaic of Talent,” *Prescriptions for Health*, Jefferson School of Population Health and Lilly USA, LLC, Winter 2013.

Unlike private, not-for-profit hospitals and health systems, most public hospitals and health systems often are unable to use competency-based governance systems to identify, recruit, and retain directors (due to the fact that board members are usually elected by the public or appointed by a local government agency such as the city council or county commissioner). However, many public hospitals and health systems have, and are increasingly deploying, unique approaches (within their constraints) to attract, recruit, and retain board talent—producing similar results of not-for-profit, self-perpetuating boards. For example, some public hospitals can submit recommendations to

the appointing body, and discuss with the appointing body any issues, questions, or concerns about those recommendations. One organization recently worked with its state legislature to revise the code to create increased flexibility, including allowing two community members at-large to be selected by the board.⁶

Further, reframing the board recruitment and retention challenge within the context of strategic human capital and talent management (described in future chapters) could offer public hospitals and health systems many of the same perspectives, tools, and benefits that private governing boards use to attract, recruit, and retain directors now and for the future.

6 Elaine Zablocki, “Public Hospital Governance Challenges Represent Opportunities for High Performance,” *BoardRoom Press* (special section), The Governance Institute, June 2013.

Chapter 3. Recruiting Directors: Current State

During the course of our research we had the occasion to discuss and consult with CEOs and board members, some of whom were confronting significant, immediate challenges finding new directors to fill vacancies.

IT IS INTERESTING TO NOTE THAT THERE ARE WIDE VARIANCES in board recruitment practices. Some CEOs and boards employ more “tactical and pragmatic” approaches (i.e., identifying, recruiting, and filling board vacancies as they arise); others are more “strategic” in that they are developing systems, practices, and processes not only to deal with immediate vacancies, but also for future vacancies with an eye on what kinds of directors the organization will need according to the future vision and strategic plan.

This chapter examines some of the methods hospitals and health systems currently use to recruit directors.

Who Recruits?

The following are examples of the people involved in recruiting efforts in the organizations we interviewed for this white paper:

- **CEO/chair:** some hospitals and health systems rely heavily on the CEO, board chair, and/or governance committee chair to spearhead recruiting efforts. In these instances, the respective individual takes the lead and is the “primary driver” of the recruitment process.
- **Board committee:** other hospitals and health systems use a board committee to identify board talent and prospective candidates (e.g., nominating committee, governance committee).
- **Individual directors:** some organizations place responsibility on individual incumbent directors (as part of their job description) to identify at least one potential candidate per year that the board could consider as a potential prospective director. These potential candidates are usually placed on board committees to vet their working relationship prior to being asked to join the board.
- **Full board:** very few organizations use the full board as the primary vehicle for board recruitment. Full boards are typically used when an organization is a) addressing a serious crisis in recruitment, b) deeply engaged in the recruiting process, or c) considering and/or developing new director recruitment practices and processes and/or to develop a larger candidate pool.

Who Do We Recruit?

According to recent research from the American Hospital Association, the most common skill sets (competencies) sought for governing boards include financial/business experience,

followed by strategic planning, quality, public relations, and human resources.⁷

Going forward, organizations will need to recruit board members with additional or different skills to enable hospitals and health systems to succeed in a value-based, population health management environment. It is already widely recognized that boards need more clinical expertise to address quality and cost issues and population health management; in addition it is likely that we will see boards recruiting people with risk management and actuarial skills, as well as younger directors with a better understanding of data mining, new technologies, and how people use technology for their healthcare needs. (Chapter 5 describes board competencies of future directors in more detail.)

Where Do We Recruit?

Perhaps one of the most interesting trends in board recruitment is the expanding geographical search region for new directors. Historically, most boards have recruited directors from the communities within which the hospital or health system is located; and in many situations this is still true, especially for smaller hospitals and health systems. But some organizations are now looking outside their own communities, for lack of available and qualified people and also to seek out more regional and national perspectives while avoiding potential conflicts of interest with people affiliated with or doing business with the hospital or system. Ralph DiPisa, a former hospital executive and CEO who is now a healthcare recruiting specialist, said recently, “Twenty years ago hospitals were almost exclusively governed by local community members who brought a variety of skills and backgrounds to the board table. However, board members were also friends and neighbors of the people who worked at these hospitals. On the one hand this was great, but sometimes this caused problems as well, especially when difficult decisions arose.”

However, the shift from an acute care-centric model to population health management is changing not only how we think about healthcare, but also the role and responsibilities of the board. The trend of recruiting directors from outside the area is by no means pervasive yet; about 30 percent of board and CEO respondents to our 2012 survey indicated that they currently are, or are strongly considering, looking outside of their communities to fill vacancies on their boards. Recruiters from two executive

7 Kevin Van Dyke, M.P.P., John Combs, M.D., Maulik Joshi, Dr.Ph., 2011 *Healthcare Governance Survey Report*, Center for Healthcare Governance, Health Research and Education Trust, and American Hospital Association.

search firms we spoke with indicated that they believe this trend will increase in the coming years.

The reason for this shift is the need for human capital and the increasing need to acquire it using deliberate and strategic methods to avoid placing the organization in peril that can be very real during times of vacancies and shortages at any key level of the organization. Human capital is arguably the most important asset in a business organization. Hospital and health system boards are quickly realizing that succession planning for quality human capital cannot stop in or with an organization's employees, middle management, or senior executives—it has to include the board.

When Do We Recruit?

While most hospitals and health systems extol the virtue and value of board recruitment, and most can point to some form of written practices, policies, and procedures, the manner and time invested in board recruitment varies significantly from organization to organization. The following are broad-based categories (generalizations) about when boards recruit (i.e., when the process is begun) and how much time is spent on recruitment efforts:

- **Reactive:** unfortunately, many hospitals and health systems are reactive. They deal with recruitment when there is an obvious issue (e.g., an acute shortage, a crisis, or an immediate need to fill a vacancy). After they fill the vacancies, they get back to the business of healthcare.
- **Formal process:** many organizations have a formal process for recruiting directors. According to a 2011 American Hospital Association study, about one-third of hospitals and health systems are using a “competency process” to select new board members.⁸ Almost half of the respondents to this survey indicated that they are using a skill matrix or similar tool to assist in recruiting board talent. While the growth in competency-based governance is certainly a positive development, the corresponding difficulty in recruiting and retaining directors means that hospitals and health systems still need to do more.
- **Sustained process:** some governing boards are now realizing that recruiting new and talented directors is more than an abstraction; it requires a sustained and ongoing process. These boards are trying to identify future (often younger) directors now, before they need them. This means that boards must expand the board “funnel of talent” to increase the candidate pool from which many boards recruit.
- **Strategic/integrated approach:** finally, some governing boards are viewing board recruitment as a significant part of their health system strategy—continuous governance improvement through a proactive, rigorous process of pooling board talent that is ongoing and directly integrated with the organization's strategic

plan and future vision. Based on our limited research we estimate that these organizations are in the minority.

As one can extrapolate from this list, the strategic/integrated approach is what we recommend all organizations implement for their recruitment process. (A recommended recruitment process using a board talent management plan is discussed in more detail in Chapter 5.) As one CEO noted, “The more time I spend managing my board, the less time I spend managing my organization. I have wasted too much time over too many years. Governing boards can be a burden, time consuming, and a distraction—or they can add value. I finally decided: I want a board that adds value.” The ultimate goal is to create an effective and efficient process of board recruitment and retention that allows the board to continuously function at its peak, without interruption, so that the board always adds value to the organization and is never a burden or distraction.

Why Do We Recruit?

The obvious answer to this question is to find directors who are interested in and committed to the hospital and/or health system. But the stakes are getting higher. The trend will be to do more than simply recruit directors, but rather to recruit from a talent management perspective.

Prior to the financial meltdown and the “Great Recession,” the conventional standard for good governance was “best practices.” Surely, “best practices” continue to be relevant and important; however, there has been an emerging realization recently that good governance requires more than boards “doing the right thing” (i.e., best practice); the “more” being that human and professional skills of the individual board members is just as, if not more important, than best practices—hence, the emergence of competency-based board recruitment.

Research suggests that boards will need to go beyond competency recruitment in the future. It is well established in business that talent is a key competitive differentiator.⁹ If talent is a competitive differentiator in business and industry, it is only logical to believe that the same should be true for the governing boards. Viewing the governing board within the context of talent (as opposed to the more limited definition of competencies) may seem like semantics—but it's not. Board talent includes and integrates competencies with the important component of talent management; in fact, talent management not only elevates the importance of competencies, but also the status, standing, and importance of both the governing board and the individual directors. It begins to redefine the optics and reframe the issue of recruitment and retention beyond finding directors who arguably can “do the job” (i.e., competencies) to competing for talent and then once that talent is acquired, treating it as a strategic priority to manage (i.e., develop and retain) the talent.

8 Van Dyke, Combs, and Joshi, 2011.

9 Van Dyke, Combs, and Joshi, 2011.

Chapter 4. The Governing Board: Strategic Human Capital

Historically, many governing boards held a more ceremonial or honorific role in the healthcare organization; their primary purpose was fundraising.

HOWEVER, IN THE LAST 40 YEARS, BUSINESS ORGANIZATIONS everywhere began to recognize the importance of the workforce and the difference people can make when it comes to the success of an enterprise. People are more “valued” than in the past—hence the term “human capital.” Likewise, effective governing boards are more than a collection of individuals; rather, each board member should have an indispensable purpose as it relates to both the board and the organization. This is especially true and important during this time of change when strategy is critical. In essence, the governing board is an avenue for hospitals and health systems to obtain necessary and important strategic human capital that can help it to transform.

Step One: Treat Governance as a Priority

Change requires leadership, and governance is an indispensable and fully integrated component of every hospital’s and health system’s leadership team. This is evidenced not only by practice; The Joint Commission’s standards aggregate management, the medical staff, and the governing board as three equally important components of a three-legged leadership stool.

So this begs the question: are we fully engaging and developing our governing board talent to meet the challenge of change? Interestingly, our research suggests that this may not be the case. Our data consistently indicates the need for, and benefits of, implementing systems of continuous governance improvement. Almost 50 percent of the CEOs and governing boards indicated in our 2012 survey that they believed that they would have “a stronger board” if they spent more time on continuous governance improvement.

Conversely, we also asked CEOs and board members to rank the “relative importance” of governance in relation to other organizational issues. Respondents were asked to rank the following issues in order of importance facing their organization: reducing costs, physician integration, hospital integration/merger discussions, developing a population health strategy, corporate compliance, recruiting and developing a strong governing board, competition from other hospitals/health systems, and other. As indicated by the rankings listed below, governance continues to remain low in relation to the other issues:

- 31.6 percent of survey respondents ranked **reducing costs** as first priority in relation to the other issues on the list.
- 22.4 percent ranked **physician integration** as first priority.

- 16.3 percent ranked **developing a population health strategy** first.
- 7.1 percent ranked **hospital integration/merger discussions** first.
- 1.5 percent ranked **corporate compliance** first.
- 1.5 percent ranked **recruiting and developing a strong governing board** first.

On the one hand, it is understandable and reasonable that the primary focus of most hospitals and health systems is on issues related to the daunting challenge of health reform, indicating the level of difficulty in balancing priorities and issues in an industry in the midst of fundamental transformation. However, these data suggest that governance may very well be “shrouded” and overlooked by other organizational challenges, and that CEOs and governing boards may not even have attracting, recruiting, and retaining board talent on their radar.

To fully address the challenge to recruit and retain board talent requires taking a step back to reflect on the bigger challenges, issues, and opportunities of healthcare and governance—essentially the board talent shortage gives us an opportunity to rethink how the governing board as a whole can become stronger and more vibrant. In addition, this is an opportunity to scrutinize the board’s relationship with the organization—its role or purpose, approach to management, and finally, the bigger picture: the board’s impact on the healthcare organizations we govern and aspire to change.

The current and emerging shortage of board talent suggests that hospitals and health systems need to go beyond competency-based governance, to rethink and redefine the board as indispensable, strategic human capital—not unlike management, the workforce, and the many healthcare professionals who deliver care to our patients and the communities that we serve.

Step Two: Treat Board Members as Human Capital

Most business organizations extol their employees as their “most important” strategic asset; that their human capital provides them with a strategic, competitive edge. Our research corroborates that hospital CEOs and directors believe that the same is true for the governing board: over 60 percent of the respondents believe that a “strong governing board” will provide the hospital or health system with a strategic competitive advantage.



First, the concept of the board as human capital is significant because it extends the solution of recruitment and retention beyond the mere pursuit of new directors to look at the totality of the board: its ability to attract, grow, engage, and retain board talent. It encourages the governing board to look at the bigger picture, the entire integrated board and all of its operational components as part of the solution to the recruitment challenge.

Second, it defines the board not merely as directors with competencies, but rather in the broader context of “talent.” Competencies define the skill sets and attributes of the “players” on the role and “position they play” on the governing team. Certainly, in competitive sports (and arguably in a competitive marketplace) there are many people who might be competent to do the job. “Winning teams” and businesses know they need the best talent. If this principle works for competitive sports and business organizations, why not governing boards, the entity charged with ultimate responsibility and oversight?

The application of human capital and talent also arguably extends to board retention. Once a board attracts and recruits talent, it needs to develop it and work to retain it. Hence, strategic human capital and talent management, by definition

should militate against the corresponding challenge of director retention.

Recasting the governing board as “strategic” human capital extends beyond the notion of merely acquiring directors with the skills that are necessary for the changing delivery system; rather it helps to redefine the role of the governing board in relation to management.

An organization that views its governing board as strategic human capital arguably should have a “strategic board” that is an essential benefit, rather than a burden. It should be an asset to the CEO and management: dynamic, diverse, and engaged, with a clear understanding of the difference between its oversight/strategic role versus the operational role of the management team. It should be vested in developing its own strategic talent; a strong pipeline of talent that will enable it to help chart the course of the future for the organization.

If hospitals and health systems view their governing boards in this new light, as strategic human capital, the logical extension is to address and manage issues of recruitment and retention (as well as other matters of board leadership and development) within the framework of talent management.

Chapter 5. Board Talent Management: A Step Up

This chapter describes how governing boards can proceed to address the challenge to attract, recruit, and retain board talent by building and developing the governing board through a talent management plan.

THE STEPS INVOLVED IN A BOARD TALENT MANAGEMENT plan, described in more detail below, are:

1. Conduct a board talent risk assessment
2. Connect board talent needs with the organization's strategic plan
3. Identify board member competencies
4. Examine talent gaps
5. Cultivate a talent/candidate pool and validate talent
6. Implement the plan and update on a regular basis

Conduct a Board Talent Risk Assessment

An important first step when developing a board talent management plan is to assess the organization's "risk" of failing to attract, recruit, and retain board talent. Arguably, a predicate to any risk assessment is an awareness of the underlying threats or risk; often the greatest challenges and risks are not those we know, but those of which we are unaware. It's no secret that healthcare is in the midst of serious, significant transformation, but with that transformation comes a necessary transformation of healthcare governance. To begin the board talent management plan, we consider various methods and tools to evaluate the risk of a board talent shortage, including deploying an enterprise risk assessment (ERM) mode, along with various other tools and approaches to conduct a board talent risk assessment.

Enterprise Risk Assessment for the Board

Many progressive hospitals and health systems are already taking on ERM as part of ongoing strategic planning. In this regard, ERM takes into account industry changes and challenges and factors them into the practice and process of the organization's own enterprise risk assessment. Accordingly, there is sufficient information to support an industry-wide governing board talent shortage—even if it is not immediately obvious or manifest within the hospital's current governance structure or governing board. In essence, the board can use the available industry information related to challenges in recruiting board talent to conduct a board talent ERM based on the organization's strategic goals for the future and the necessary board talent to realize those strategic goals against the current talent on the governing board and a backdrop of the available talent within and beyond the community.

Board Talent Risk Assessment

The next level of risk assessment is for hospitals and health systems to evaluate whether any signs or symptoms of a governing board talent shortage are currently manifest, or likely to present near-term challenges to the hospital or health system. There are three basic approaches boards can use, either separately or collectively to secure additional information: 1) quantitative, 2) qualitative, or 3) using external assistance.

1. Quantitative Approach

There are two basic quantitative tools that governing boards can use to evaluate risk. The first is to do a "board term" analysis. The second is a board effectiveness/satisfaction survey.

Board term analysis: A board term analysis is fairly simple and straightforward: an evaluation of current board member terms to predict turnover. (This information is typically more definitive for organizations that have term limits.) While simple, this exercise is often very enlightening, not only when organizations calculate the number of directors anticipated to leave, but especially when looking at *who* will be leaving; often these are directors with extensive experience and organizational/institutional memory. During this exercise the board should assess the skills and historical perspectives of the remaining board members as well.

Organizations without term limits sometimes take comfort that this analysis may not be determinative, as the board can simply reappoint directors for additional terms. However, this is not always the case. In fact, boards without term limits could have a false sense of security that may put them at risk, not only with respect to replacing directors who ultimately decide to leave, but also with respect to concealing some of the general challenges and issues of recruitment and retention described in this white paper.

Age analysis: Another worthwhile assessment is age—the overall age of the board and the number of mature directors in comparison to a younger age cohort. This is important, especially in light of the increasing desire and demand for "younger" directors. Age may also be a factor in when directors decide to leave the board.

Effectiveness/satisfaction survey: Another quantitative technique that can help hospitals/health systems assess board talent risk is to conduct a board effectiveness/satisfaction survey.



Many governing boards would benefit by candid assessments that evaluate the board's performance and effectiveness, and whether the meetings are engaging, productive, and a good use of time. This point was reiterated and reinforced in several focus interviews; for example, one CEO said, "A lot of time is wasted by directors who dominate the meeting. One director not only talks forever, but actually gets angry at anyone who disagrees with him. I don't take it personally, but I think that overall it is not healthy for the board. I think that a board satisfaction survey would be a good thing. It would enable us to put some issues out there, on the table in a manner that is a lot less threatening than many other kinds of director evaluation tools."

Good governance takes time and change typically does not "occur overnight." The first step to building a strong, high-performing governing board made up of satisfied board members is to conduct an assessment of the board's ability to carry out its responsibilities related to the areas identified on the Intentional Governance Spectrum described in Chapter 1. The Intentional Governance Assessment is an example of the kind of survey boards can take to help assess their talent risk (see **Appendix 1**).¹⁰

2. Qualitative Approach

Hospital and health system directors are busy, and oftentimes they don't take time to talk, especially about non-healthcare matters, or themselves. However, it is important to find time to discuss each director's performance, satisfaction, engagement, and future expectations, as well as any concerns the director may have about the board and/or organization.

Individual director meetings: One board indicated that the CEO and chair meet annually with each and every director to talk about participation, performance, board satisfaction, and directors' future plans. It is difficult to predict the future; however, our focus interviews indicated that boards that had regular (annual) meetings with individual directors were far more prepared, that they were better able to anticipate board turnover.

Full board discussions: Another invaluable way to assess recruitment and retention is for the full board to dedicate time to discuss these issues, either using time set aside on the agenda at regular board meetings, or at a retreat dedicated to discussing board turnover and succession planning.

¹⁰ The Intentional Governance Assessment focuses on only the areas of board responsibility having to do with governance development in general. It does not touch upon the various other recommended practices related to the fiduciary duties and oversight areas of finance, strategic planning, quality/patient safety, management oversight, and advocacy/community benefit; thus this should not be considered a complete assessment of board performance for the purposes of governance development and accreditation. For more information on conducting a comprehensive board self-assessment covering the board's entire umbrella of oversight duties, please contact The Governance Institute.

3. External Assistance

Finally, many survey respondents indicated that they sought (or are planning) to seek the assistance of an independent third party (such as an executive search firm), both to assess their talent risk and also to assist in recruitment efforts. These boards are seeking an expert who would take the time to listen, evaluate the potential scope of the issue, and propose a menu of options and/or solutions.

Connect Board Talent Needs with the Strategic Plan

Once the board has determined its level of talent risk, the next step is to understand, define, and articulate the board's talent needs against the organization's strategic plan/future vision. With the strategic plan in mind, the board can conduct a talent gap analysis to identify desired and necessary talent for the future—the competencies needed *at the board level* to achieve the organizational goals outlined in the strategic plan.

Many hospitals and health have recently updated their strategic plans, and some are having difficulty with strategy, especially due to the movement from an acute-care-centric model of care delivery to a population health approach. Hospitals and health systems need to do more than consider a potential construct for the future delivery system; they need to revisit the organization's mission, vision, and values and determine the role of the organization going forward in a value-based payment environment (i.e., will it be a population health manager or

will it affiliate/coordinate with others doing population health), including how the organization (and therefore, the board) will change during the interim transition.

CEOs and boards need to consider both near-term and long-term strategy. During this time of change, healthcare organizations need to be flexible and revisit it often, especially since the process of building systems of care involves, and will involve, uncharted waters. In turn, all of this should drive the demand for board talent that can align itself with its strategic shift.

Identify Board Member Competencies

Once the organization has developed and defined (or updated) its strategic plan, the governing board needs to examine its existing talent: the competencies and skills to effect alignment with the strategic plan. In essence, this is the opportunity to gain a strategic competitive advantage by having a strong governing board.

David Boyer, chair of the board of Meriter Hospital in Madison, WI, illuminated how new and different board skill sets can help not only the governing board but also the CEO in this changing environment, especially when a director has experience in another industry that has already undergone a significant transformation: "This sort of fundamental or even



‘revolutionary change’ that is going on in healthcare has already happened in other industries, like manufacturing. It’s happened in other industries as well. Now it’s time to reorient how we do business in healthcare as we get ready to provide our communities something different, something that it has needed for a long time: population health.”

Our research indicates that governing boards are beginning to recognize the need to transform themselves and search for new and different talent in response to the changing healthcare delivery system. Examples of these “new” skills include:

- Reliability science for quality and patient safety
- Innovation

- Diversity
- Change management
- Actuarial risk and scenario planning
- Flexibility
- Relationships
- Social media

It seems counterintuitive, but the more an organization narrows the options and describes the specific person that they are looking for, the easier it is to identify the candidate. Creating a job description can also help the candidate understand the position and minimize the misunderstanding on both sides.

Recruiting Diverse Talent

The numbers are clear: by 2050 nearly half of the U.S. population will be comprised of racial minorities, a group that is earning M.B.A. degrees at lightning speed.¹¹ Women are also increasing their presence at the manager’s desk and in the boardroom, with M.B.A. programs nearing gender parity.¹² It is necessary to evaluate the importance and value that comes with board diversity now because business leadership will inevitably become more diverse over the next generation. Enhancing board governance and oversight, lively debate, avoidance of group think, larger talent pools, the ability to relate with minority consumers, and increased agility are some of the key facets illustrating the importance and value of board diversity.

The existence of diversity actively alters board dynamics in positive ways. Diversity can improve and enhance the board’s oversight function by engaging a broader range of opinions, couched by varied life and management experiences, which can ease detection of potential conflicts.¹³ These heterogeneous perspectives are invaluable in preventing the vulnerabilities suffered by homogeneous boards, such as board governance failures, CEO domination, and poor risk evaluation.¹⁴ In short, diverse boards can also help to prevent corporate corruption because they are bold enough to ask management tougher questions.



Boards containing a significant number of female directors show an increase in the number of board meetings, a higher number of meetings attended by both men and women, greater participation in debate, tougher monitoring, and higher turnover of under-performing CEOs.¹⁵ There is also evidence that female directors help boards execute

strategic functions because their life experience is often closely aligned with company needs.¹⁶ Moreover, boards with three or more women are 94 percent more likely to insist on conflict-of-interest guidelines (compared to 58 percent for men).¹⁷ For boards with at least two female directors, 75 percent conducted formal board performance evaluations, whereas less than half of the male boards required evaluations.¹⁸

Similarly, increased participation by women can ensure representation of valuable capabilities. For instance, some empirical evidence suggests that women generally are more financially risk averse than men,¹⁹ leading some commentators to speculate that an increased female presence in corporate financial decision making could have helped to curb tendencies that contributed to the recent financial crises.²⁰

In the passive sense, the presence of visibly diverse directors can facilitate conflict resolution by signaling that differing opinions are

11 Lisa M. Fairfax, “The Bottom Line on Board Diversity: A Cost-Benefit Analysis of the Business Rationales for Diversity on Corporate Boards,” *Wisconsin Law Review*, Vol. 795 (2005), pp. 811–13.
 12 See e.g., Matt Symonds, “Women in Business School: Why So Few?,” *Bloomberg Business Week* (Jan. 14, 2013).
 13 Niclas L. Erhardt, James D. Werbel, and Charles B. Shrader, “Board of Director Diversity and Firm Financial Performance,” *Corporate Governance*, Vol. 11, No. 2 (April 2003), p. 104.
 14 Richard C. Reuben, *Corporate Governance: A Practical Guide for Dispute Resolution Professionals*, ABA, 15 (2005). Available at www1.ifc.org/wps/wcm/connect/b3e3358048a7e46e9d47df6060ad5911/Corporate%2BGovernance%2B-%2BReuben.pdf?MOD=AJPERES&CACHEID=b3e3358048a7e46e9d47df6060ad5911.

15 Renee B. Adams and Daniel Ferreira, “Women in the Boardroom and Their Impact on Governance and Performance,” *Journal of Financial Economics*, Vol. 94 (2009), p. 291, 292.
 16 Erhardt, Werbel, and Shrader, 2003, p. 105 (citing Fondas, 2000).
 17 Noel Harwerth, “The Diversity Advantage,” *FTI Journal*, Dec. 2011.
 18 *Ibid.*
 19 Deborah L. Rhode and Amanda K. Packel, “Diversity on Corporate Boards: How Much Difference Does Difference Make?,” Stanford University Rock Center for Corporate Governance (Sept. 2010), p. 10. Citing, e.g., Nancy Ammon Jianakoplos and Alexandra Bernasek, “Are Women More Risk Averse? Attitude Toward Financial Risk,” *Economic Inquiry*, Vol. 36 (1998), p. 620.
 20 Rhode and Packel, 2010, citing Nicholas D. Kristoff, “Mistresses of the Universe,” *The New York Times*, Feb. 7, 2009.

present at the conference table and that effective and wide-ranging discussion will ensue, leading to a balanced and well-reasoned solution.²¹ The presence of diverse directors can also boost consumers' perception of the organization, allowing them to recognize its proactive effort to base its strategy and activities on multiple points of view.²²

A heterogeneous board may be better able to fill its decision-making role because it will likely consider more fully all relevant information and have greater awareness of different issues.²³ The critical thinking of a board can also be positively influenced by the presence of women²⁴ and minorities, contributing to a healthy environment and fostering "cognitive conflict."²⁵ Women have different life experiences than men and bring different concerns and questions to the table, allowing the board to consider a wider range of options and solutions to corporate issues.²⁶ Racial and ethnic minorities have a need to relate to both dominant and subordinate groups, leading to a bicultural fluency that may enhance decision making.²⁷ The board's broader opinion base also facilitates deliberation with greater perspective and insight, helping to avoid conciliatory consent, or "groupthink."²⁸ This leads to a richer decision-making process and is one reason why heterogeneous boards are less likely to take extreme positions on issues.²⁹



Nevertheless, diversity can lead to roadblocks in the deliberation process. Racial diversity can lead to an increased risk of emotional conflict, resulting in increased levels of anxiety and frustration.³⁰ Diversity can also lead to less trust among board members and a discomfort, hindering their ability to work together. Minorities may also feel pressured to reduce the discomfort and lack of trust by making themselves more "racially palatable" to fellow board members, resulting

in less *genuine* diversity.³¹ These problems can be allayed by an effective board recruitment process that avoids tokenism, appointing more than one minority director per cycle, and actively integrating team building between the old and new directors.³²

Another benefit of board diversity is the ability to recruit board members from a larger talent pool that not only encompasses a variety of strengths, but also unique viewpoints through which to apply those competencies. Broadening search criteria to include women at middle and upper management levels (including directors) has been shown to provide a positive link to firm financial performance.³³ Given the progression of the population and its labor pool, qualified applicants will come from a variety of backgrounds, and corporations will need to pursue and attract diverse individuals in order to grow and remain competitive.³⁴

Regulatory and institutional actions are also stimulating the move towards diverse talent pools. Governance measures like the Sarbanes-Oxley Act³⁵ have shrunk the number of directors qualifying as "financial experts," encumbering the recruitment of directors from traditional sources and forcing corporations to look outside the box for new members.³⁶ Even so, the impact of the shrinking talent pool is belied somewhat by the number of directors who hold positions on multiple boards.³⁷

The value of recruiting directors from outside traditional circles is understood in many European countries, where the proportion of women on company boards is increasing.³⁸ The impetus lies in the criteria of increased performance and national mandates requiring board diversification.³⁹ For instance, Norway has met a 2002 mandate requiring 40 percent of director seats be held by women.⁴⁰ Spain and

21 *Ibid.*, p. 13, citing Elizabeth Mannix and Margaret A. Neale, "What Differences Make a Difference? The Promise and Reality of Diverse Teams in Organizations," *Psychological Science*, Vol. 6 (2005), p. 31.

22 *Ibid.*

23 Fairfax, 2005, pp. 832–833.

24 Erhardt, Werbel, and Shrader 2003 (citing Shrader *et al.*, 1997); see also Institute for Corporate Directors, *Diversity in the Boardroom: Findings and Recommendations of the Institute of Corporate Directors*, Dec. 5, 2011, p. 3.

25 Lynne L. Dallas, "Does Corporate Law Protect the Interests of Shareholders and Other Stakeholders?: The New Managerialism and Diversity on Corporate Boards of Directors," *Tulane Law Review*, Vol. 76 (June 2002), pp. 139–91.

26 Rhode and Packel, 2010 (citing Sonia Ospina and Erica Folly, "A Critical Review of Race and Ethnicity in the Leadership Literature: Surfacing Context, Power, and the Collective Dimensions of Leadership," *The Leadership Quarterly*, Vol. 20 (2009), p. 876, 882.

27 Rhode and Packel, 2010, p. 1.

28 Institute for Corporate Directors, 2011; see also Rhode and Packel, 2010, p. 10.

29 Fairfax 2005, p. 831–37.

30 Rhode and Packel, 2010 (citing Lisa Hope Pelled, Kathleen Eisenstadt, and Katherine R. Xin, "Exploring the Black Box: An Analysis of Work Group Diversity, Conflict, and Performance," *Administrative Science Quarterly*, Vol. 44 (1999), pp. 1, 2, 20–24.

31 Fairfax, 2005, p. 795, 834.

32 Vernetta Walker, "Beyond Political Correctness: Building a Diverse Board," "Recruiting a Stronger Board: A BoardSource Toolkit" (May/June 2009).

33 Erhardt, Werbel, and Shrader, 2003 (citing Shrader *et al.*, 1997); see also Institute for Corporate Directors, 2011, p. 3.

34 Fairfax, 2005, p. 795, 810.

35 SARBANES–OXLEY ACT OF 2002, PL 107–204, July 30, 2002, 116 Stat 745.

36 Fairfax, 2005, p. 795, 813.

37 Fairfax, 2005, p. 795, 814.

38 Noel Harwerth, 2011.

39 *Ibid.*

40 *Ibid.*

France have also introduced the 40 percent mandate, while Iceland, Denmark, and Ireland have passed quotas.⁴¹ The Netherlands and Italy are also considering mandates.⁴²

The question remains whether there is a sufficient number of minorities who satisfy the criteria for being a board member. There are few minorities who are currently working in traditional board precursor positions.⁴³ Generally, board members tend to be former executives, an area that has been dominated by white males.⁴⁴ Some solutions are including minorities on search committees, broadening the search for candidates to other levels of management, or approaching candidates from other market segments.⁴⁵

A fourth benefit is the diverse board's ability to relate with different constituencies. The "market rationale" posits that diversity may improve a corporation's position in the marketplace by allowing it to respond better to an increasingly diverse client and customer base, resulting in increased sales and performance.⁴⁶ For instance, corporations with minorities in management and on the board can market existing products and services in a more effective manner that attracts diverse consumers.⁴⁷ Thus, heterogeneous boards are better equipped to identify and develop new products and services aimed at the particular needs or interests of diverse communities.⁴⁸ Focusing on diverse consumers also leads to elimination of the stereotypes that are prevalent in advertising and marketing.⁴⁹

Because managers of ethnic minorities understand their employees of ethnic minorities, those managers will more likely adopt, or facilitate the adoption of, policies and practices that increase employee satisfaction. The enhanced satisfaction has an economic benefit

because it ultimately leads to greater productivity and profitability for corporations.⁵⁰ However, this argument may be flawed for the same reason as the market rationale: lack of interaction between the board and those departments setting employment benefit policies.⁵¹ Even so, having minorities in executive positions sends a powerful statement to other minorities in the corporation that there is legitimate potential for advancement, thus improving recruitment and retention.⁵²

The effect of relating to diverse populations can pour-over into the realm of employee relations as well. The "employee relations rationale" concludes that increasing diversity (particularly in the upper ranks) can have a positive impact on employment relationships within the corporation, reducing turnover and its associated costs while increasing productivity and profitability.⁵³ Beyond adding symbolic value inside and outside the organization by linking the board with other constituencies,⁵⁴ director diversity tends to reflect the organization's customer base and labor pool.⁵⁵ Female directors also bring a level of finesse when consulting or negotiating with diverse labor and product markets.⁵⁶

Finally, diverse directors can be champions for change because they tend to be younger than their senior counterparts and are open to relatively newer ideas and approaches to doing business.⁵⁷ A progressive board will be able to confront new challenges with agility and respond to change without damaging delay. This may be the most salient reason for diversification because in our recovering economy, compounded by increased regulatory oversight and shifting social demographics, business as usual will no longer suffice.



41 Noel Harwerth, 2011.

42 *Ibid.*

43 *Ibid.*, pp. 815–17.

44 *Ibid.*, pp. 815–17.

45 *Ibid.*, pp. 815–17.

46 Fairfax, 2005.

47 *Ibid.*, pp. 820–22.

48 *Ibid.*, pp. 820–22.

49 *Ibid.*, pp. 820–22.

50 *Ibid.*, pp. 828–30.

51 *Ibid.*, p. 829.

52 *Ibid.*, p. 830.

53 Fairfax, 2005, note 22, *supra*, p. 811.

54 Erhardt, Werbel, and Shrader, 2003, p. 3 (citing Burke, 2000b).

55 *Ibid.*, p. 105 (citing Mattis, 2000).

56 *Ibid.*, p. 3 (citing Watson, *et al.*, 1993).

57 *Ibid.*, *supra* note 1 (citing Bilimoria and Wheeler, 2000).

Examine Talent Gaps

Once the organization has developed a list of competencies, it needs to make a fundamental decision on whether it can grow the talent internally with and through existing board members or whether it needs to recruit new talent.

Growing talent requires that the governing board take time to evaluate what kind of training and development board members need to do their jobs, to help transform the delivery system. This requires the board to talk to and communicate with its existing talent (the incumbent directors) and ask questions such as:

- What do you hope to gain/learn from serving on the board?
- What are your aspirations for serving?
- What level of involvement do you want? (This question needs to be asked on a regular basis, as some board members who are not initially interested in a leadership position such as the board chair or committee chair may change their minds overtime, and be more willing to commit. Of course, the inverse is also true.)
- Are you engaged and learning?
- Are there other areas of healthcare you would like to learn about?

Also, the likelihood of growing talent internally increases if/when the governing board and CEO engages directors and makes every effort to retain them as part of the governing board talent pool.

Cultivate a Talent/Candidate Pool

Hospitals and health systems have historically used a variety of means to grow and build a talent/candidate pool. Notably, these include “intra-system recruitment” from other subsidiary or affiliate boards and recruiting community members sitting on board committees. However, our research indicates that this may not be sufficient. Almost 75 percent of the respondents to our 2012 survey either agreed or strongly agreed that they would benefit



from having a talent/candidate pool from which to identify prospective candidates. This clearly affirms and supports the notion of a board talent shortage and the need for governing board to take affirmative, intentional steps to begin to identify prospective board talent. During the course of our research we identified several talent/candidate pool models that various hospitals and health systems employed:

- **Talent/candidate pool of existing directors:** one system developed an actual director talent pool consisting of talent that they identified as a current need and/or future need. The people in this pool are vetted through a board competencies process and they currently serve on the parent board, without vote. This gives the CEO and the governing board immediate access to new board talent that is skilled, qualified, trained, and knowledgeable about the organization, the governing board, and its culture. It allows for what amounts to a seamless transition of board talent, should the need arise.
- **Virtual talent/candidate pool:** another organization confronted their board talent shortage by creating a “virtual” talent pool. After developing its organizational strategies, competencies, and conducting a talent-gap analysis, it became obvious that the health system had to expand the number of candidates from which to choose to obtain the right match. In order to do this, the governance committee engaged the entire board and compiled a list of 27 persons from which to choose. The very exercise of expanding the scope and number of potential board candidates ultimately produces not only a larger talent pool, but also one that is more skilled and diverse.
- **Professional recruitment firms:** there is an emerging trend in which governing boards and CEOs are increasingly turning to the very same experts who help them find executive talent, to find board talent and create a talent pool for the organization. Healthcare is changing, corporate governance is changing—and so too the ways and means by which governing boards are seeking to obtain the very best talent. (For further discussion on the use of recruitment firms, see Chapter 6.)
- **Social media:** the new generation of learners is not only using social media to build business contacts and relationships, but also for board recruiting (one example is LinkedIn Board Connect). This may provide significant opportunity to not only expand the scope and breadth of the board talent pool, but also help hospitals and health systems identify younger directors.
- **Community advisory boards:** finally, many organizations continue to search within the ranks of their local communities, but they don’t wait for a crisis. They develop “advisory boards” that may not meet often, but that have meaningful, defined connections to their hospitals and health systems. This enhances not only the pipeline of talent, but also community connectivity.

LinkedIn to Board Recruiting

The “new” governance leaders are already using technology and social media to expand the potential talent candidate pool to recruit new board members for governing boards. In recent years, the popular social media network has developed into a tool not only for employers to find employees, but also for governance boards to find new directors. LinkedIn Board Connect has been specifically developed to aid governance boards in finding and hiring new members. As the second most popular social media site as of 2011, LinkedIn’s Board Connect program could have a substantial impact on governance.

A 2011 study showed that LinkedIn is the second most popular social media site in the country.⁵⁸ LinkedIn is second only to Facebook. There are two age ranges that use LinkedIn significantly more than the others: 1) Generation Y, which consists of people from the age of 23–31; and 2) Generation X, which consists of people from the age of 32–45. Of the people polled in Generation Y, 31 percent reported using LinkedIn, and 35 percent of Generation X people polled used LinkedIn.

LinkedIn is a social media site that is specifically geared towards business.⁵⁹ LinkedIn allows professionals to interact and network with other professionals. It provides new opportunities between employees and employers.

LinkedIn Board Connect provides extra resources for its users. Talent Finder is a program that focuses on finding the top candidates on LinkedIn that meet the specific needs of the employer.⁶⁰ The search includes candidates that might not be connected with any of the current board members on LinkedIn as well as candidates who are closely connected to a board member on LinkedIn. LinkedIn Board Connect also includes access to a “Board Connect Group” where non-profit professionals share information, resources, and tips on using LinkedIn Board Connect specifically as well as general sources for finding new board members.⁶¹ The Board Connect Group could make hiring board members faster and more efficient. LinkedIn Board

Connect allows access to Web casts on how to make the most out of LinkedIn to help find whoever is needed.⁶²

The LinkedIn Board Connect approach to governance is eliminating the “who do you know” model of finding board members.⁶³ Instead, it provides a database to search for professionals and rates them on how closely connected they are to the board or individuals on the board or the non-profit organization itself. This allows the search for a new board member to be more expansive and faster than traditional methods; a board can contact an individual who might never have been identified using more traditional recruitment methods.

LinkedIn Board Connect could be a valuable tool to utilize in healthcare governance. However, a report by The Conference Board and Rock Center for Corporate Governance at Stanford University in 2013 reported that social media is not discussed on a board level.⁶⁴ Only 7 percent of directors said their board has a committee with responsibility to oversee social media, and only 8 percent said their board receives reports with summary information and metrics on social media strategy success. Almost half (47 percent) of directors said they did not collect information on social media and 32 percent considered it to be “too low-level” for the board to handle. Approximately two-thirds (65 percent) of executives and directors reported using social media for personal purposes, and 63 percent said they used social media for business purposes.⁶⁵ The problem is that social media users for business are probably passive users. The study found that the key issue was that most executives are spectators in the business aspect of social media. They only use social media to read and monitor information but are not active users such as creating blogs or publishing updates.⁶⁶ Seventy-five (75) percent of companies polled did not have formal social media participation guidelines or policies for board members.⁶⁷ As LinkedIn Board Connect (and similar tools yet to be created) becomes more popular in governance, it can potentially have a significant impact on board recruitment.

58 Gina Sverdlov, “We Proudly Present Our Annual State of the US Consumer Report” (blog), Forrester, November 3, 2011. Available at http://blogs.forrester.com/gina_sverdlov/11-11-03-we_proudly_present_our_annual_state_of_the_us_consumer_report.

59 Randy Duermyer, “LinkedIn,” About.com Home Business (<http://homebusiness.about.com/od/homebusinessglossar1/g/linkedin-what-is-linkedin.htm>, accessed May 14, 2013).

60 Meg Garlinghouse, “LinkedIn Board Connect: Helping Non-Profits Find Board Members on LinkedIn” LinkedIn Blog, September 17, 2012. Available at <http://blog.linkedin.com/2012/09/17/board-connect/>.

61 *Ibid.*

62 LinkedIn Board Member Connect Slide Show, slide 18. Available at <http://nonprofits.linkedin.com/>.

63 *Ibid.*, slide 28.

64 Elizabeth Mullen, “Boards Not Discussing Social Media,” *NACD Directorship*, November 9, 2012. Available at www.directorship.com/study-boards-not-discussing-social-media/.

65 *Ibid.*

66 *Ibid.*

67 *Ibid.*

Beyond Interviews: Validating Talent

Another component of working with a board talent/candidate pool is validating a candidate's competencies and talent skills, prior to candidate screening and interviews whenever possible. This works well when organizations use talent pools that involve candidates on advisory councils or committees prior to being nominated for the board, so that the board members have the opportunity to get to know the candidates and their skills. Board members at one organization were asked to complete surveys on top candidates and answered specific questions about the knowledge, skills, and talents that were being attributed to the candidates. Questions included:

- Did the nominating director (or other director or person recommending the candidate) have personal/professional experience with the candidate?
- Did the nominator observe the candidate demonstrating leadership ability and if so, under what circumstances?
- Can the nominator provide specific examples of the candidate's decision-making ability, adaptability, and whether he or she would be culturally compatible with the organization?

Then, candidates were questioned during the interview process about their knowledge and interest in healthcare; they were given hypothetical scenarios and the opportunity to discuss how they would answer and/or interact during difficult situations. Finally, expectations, time commitments, and duties and responsibilities were all discussed in advanced to obtain clarity and a mutual understanding of the requirements and obligations that one has when agreeing to serve on the boards.

For organizations using a "virtual" talent pool as described above, it may be likely that some of the people in the pool are not yet familiar to the board. In this case board members can ask similar questions about the candidates to their colleagues and others in the community who have worked with the candidates.

Organizations who use professional recruiting firms need to ensure that those firms are properly vetting the proposed talents of the candidates being considered.

Implement the Board Talent Management Plan

Once the board has gone through the steps described above, the exercise becomes more than just filling in the blanks. The final step of a board talent management plan is to implement it; and there is only one way to know if you are succeeding: ongoing development of board talent, and creating systems and processes to measure results.

The board talent management plan must integrate and focus not only on the talent the board needs to attract, recruit, and retain—it must also be integrated with the board's existing talent. Taking this into the context of viewing directors as human capital, current board members should continue to have opportunities to grow and develop as leaders and directors, so that they can continue to feel they are spending their time in a meaningful way. Most importantly, the plan must be updated on a regular basis and kept current.

Finally, an important construct that must be recognized and revisited frequently is that this talent management plan is inextricably connected to the other key pillars of intentional governance: board education, evaluation, and assessment; ongoing board improvement processes; and board leadership succession planning; identifying and developing future chairs and vice chairs to lead the board.

Organizations that successfully treat the board as strategic human capital and emphasize the importance of board talent management must be willing to take a closer look at themselves—to know and be aware of not only their strengths, but their limitations. Successful boards will need a firm and intentional willingness to change, so that they can, in turn, help to lead our healthcare organizations as we prepare to change.

Chapter 6. Building the Board of the Future: Trends and Tools

Recruiting Younger Talent

IN ADDITION TO GENERAL CONCERNS ABOUT THE BOARD talent shortage, respondents to our 2012 survey (63 percent) indicated that they feel it is important to recruit younger directors to the board. Further, almost one-third of the respondents indicated that, in order to do this, they need to change how the board currently does business. This is no small matter.

It is well known that people “learn” and assimilate knowledge differently. The three common broad categories of learning styles are visual, auditory, and experiential (i.e., those who learn best by doing/applying information). However, there is a growing amount of research that indicates that in addition to our “individual” aptitudes to process and learn, that there are also “generational” differences in learning, meaning that how we learn is, to a large extent, a function of our age.⁶⁸ The same is true with regard to other matters, including how we work, how we communicate, and our use of technology.

Most governing boards are comprised of a combination of both “mature” directors (born 1925–1945) and “baby boomers” (born 1946–1964)—though some researchers further divide the “baby boomers” into two segments: “Early boomers” (born 1946–1955) and “late boomers” (1955–1964).⁶⁹

For the most part, healthcare boards “grew up” with paper, books, typewriters, and telephones. Directors learned in classrooms and were taught by teachers and professors who presented and/or lectured. They used pens and pencils and notepads and notebooks. Then came the “technology revolution,” and while many of us have migrated (to some degree or another) into the world of technology, there continues to be wide variations with respect to the manner and amount of technology we use in our daily lives. Research suggests that when learning, most people prefer material to be verbal and text-driven, formal, and deductive (in the context of the healthcare board, board books and presentations).⁷⁰

The Next Generation

Today, most hospital and health system CEOs are “baby boomers.” However, our workforce (human capital) is clearly multi-generational, consisting of boomers and Gen Xers (born 1965–1979). Gen Xers adapt well to “formal” learning, but they like “action” learning, meaning that they want “real solutions to real problems.” Then come the Gen Yers and Millennials (born 1980–1995); they are technically savvy, value diversity, and have a global

perspective: “It’s not about technology. It’s about the learning technology lets me do.”⁷¹

All of this means that “multi-generational” talent is gradually creeping into the boardroom, creating opportunity or angst—depending on the board. Our 2012 research indicates that a majority of respondents (76 percent) believe that they are effectively using technology to enhance governance and conduct meetings; however, almost the same amount (74 percent) agreed that governing board technology will be an important tool to recruit and retain directors in the future.

Some governing boards today consider a board portal to be an effective use of technology; they are gradually replacing paper with iPads, and we expect board portal use to continue to increase. The next generation of governing board talent will want more: using technology to have “meetings without meeting.” CEOs, governing boards, and board leaders that identify and embrace generational diversity today will likely recruit and retain the very best directors, tomorrow.



68 Kent Greenes and Diane Piktialis, “Bridging the Gaps: How to Transfer Knowledge in Today’s Multigenerational Workplace,” The Conference Board of Canada, 2008. Available at <http://www.conferenceboard.ca/e-library/abstract.aspx?did=2663>.

69 Greenes and Piktialis, 2008.

70 Greenes and Piktialis, 2008.

71 Greenes and Piktialis, 2008.

Google+: Meetings without Meeting

As governance boards prepare to recruit younger directors and brace for a “multi-generational boardroom” it may be helpful to know that the next generation of board leaders is already using technology to work differently—to have “meetings without meeting” by using Google applications such as Google+, Google Hangout, and Google Documents.

Google+ is a free social network where individuals create profiles similar to Facebook. To use Google+, one must register their information with Google. Google+ provides a foundation from which one can stay connected with others and use Google’s other application programs. The contact lists in Google+ are called “Circles.”⁷² Circles can be labeled with different titles such as colleagues or friends.⁷³ The user determines which people are in what Circle. While Google+ is similar to other social networks such as Facebook and LinkedIn, the capability to use Google+ with other Google applications makes it unique. These applications may provide some light on the future of governance.

Another application is “Google Hangout,” a system in which members of Google+ can create a chat room where up to 10 devices can be connected at once.⁷⁴ This Hangout is free as a part of Google+.⁷⁵ Computers, laptops, and smartphones are all devices that can be used in Hangout.⁷⁶ Further, participants can use devices like microphones and cameras that enable multiple people to participate at the same time. Hangout devices control the configuration of the chat room. The chat room can be set so persons must be invited to participate. Hangout enables all device images to be viewed at the same time and when someone begins to speak, that participant’s device appears in the middle of everyone’s screen.

“Google Documents” is another application that can be used for board meetings. Google Documents allows Google members to share

Word, Excel, and PowerPoint documents.⁷⁷ Individuals, who are given access by the person who originally shares the document, can edit the document simultaneously. Each editor has his own pointer that is color coded and shown on the document itself. This allows for an entire group of people to edit a word document over the Internet simultaneously without ever speaking.

Both Hangout and Google Documents can be used together with Google+. In Hangout, one is able to load up a document that the other members can edit as they discuss it. Google+, Hangout, and Google Documents are all free. These free applications have created a new medium for students and professionals alike to work together while being miles apart. While similar programs have existed in the past, they were not as mainstream as Google’s applications.

According to *U.S. News and World Report*, 61 of America’s top 100 universities already use Google applications in a variety of ways.⁷⁸ Google applications are already popular tools for social, educational, and working environments.

But is it realistic to think this will ever be used in governance? The University of Richmond School of Law board of directors uses Google Hangout for its board meetings, and one of its directors lives and participates in meetings from his home in California.⁷⁹ Information technology is already changing the boardroom and board meetings well beyond the board portal, and the “new generation of learners” is driving this change, which now enables board members to participate in “meetings without meeting.”

As new generation learners are being exposed to Google applications more frequently on a variety of levels, it is likely that the experience of “meetings without meeting” will have a greater impact in healthcare governance.

72 Elise Moreau, “What Is Google Plus? How to Sign Up For a Google Plus Account,” *About.com Web Trends*. Available at <http://webtrends.about.com/od/howtoguides/a/What-Is-Google-Plus-How-To-Sign-Up-For-A-Google-Plus-Account.htm>.

73 *Ibid.*

74 Google+ for Higher Education, *Thirty-One Ways to Use Google+* (slides). Available at <https://docs.google.com/presentation/d/1WVG6RjvDbiv7Z9Vv4qWR2CvFIEvKmZ2qdD1JEv1T5rfo/edit?pli=1#slide=id.p17>.

75 *Ibid.*, slide 18.

76 Toastykitten, “Hangout on Your Mobile Phone with Google+ & More,” *WonderHowTo* (Google+ Insider’s Guide, 2012). Available at <http://googleplus.wonderhowto.com/inspiration/hangout-your-mobile-phone-with-google-more-0130007/>.

77 Google, “Convert a file to a Google document, spreadsheet, or presentation,” available at <http://support.google.com/drive/bin/answer.py?hl=en&answer=2407404>.

78 Google Official Blog, “Tradition Meets Technology: Top Universities Using Apps for Education,” September 13, 2011. Available at <http://googleblog.blogspot.com/2011/09/tradition-meets-technology-top.html>.

79 *Ibid.*

Director Compensation

Consolidation, health reform, the board talent shortage, and increasing time demands on directors (not just to attend, but to prepare for meetings) are just some of the reasons why CEOs and boards may be questioning whether it is time to start compensating directors.

Board compensation is a lightning-rod for discussion. Directors and boards are often deeply divided on the matter. Historically, very few hospitals and health systems compensated their board members. It was, and for some remains, a matter of deep, abiding principal—that serving on a not-for-profit hospital or health system board is part of a citizen's obligation to give back to the community. Further, the IRS takes the position that charities should not compensate people for service on the board of directors except to reimburse direct expenses.

Board compensation is commonplace in other industries, especially for-profit and publicly traded companies. The percentage of non-profit hospitals and systems currently compensating directors remains low, at around 10 percent (this number has remained level for the past decade). Larger health systems are more likely to compensate directors (this number increased from 12 percent about 15 percent in 2011), most likely because many of those travel to board meetings from outside the area.⁸⁰ Our 2012 research revealed some of the “tension” associated with this issue: over 30 percent of respondents agreed that hospitals and health systems would be better able to recruit and retain directors if board members were compensated; yet, only half that number (15 percent) agreed that in the future, boards are likely going to have to compensate directors.

Clearly this suggests ambivalence. Industry experts expect to see the percentage of organizations compensating directors increase to some degree in the coming years. “I had suspected that this might increase more rapidly than it has as a result of the added responsibilities board members have taken on in terms of fiduciary duties and increased time commitments that we're seeing placed on board members,” said T.J. Sullivan, partner at Drinker Biddle & Reath LLP. “There has been some change. Some of the well-known health systems have moved towards compensation—but it's still a distinct minority practice.”

Organizations that pursue board compensation programs should work closely with their legal counsel to make certain that they take the necessary steps to secure the “rebuttable presumption of reasonableness,” similar to the steps non-profit hospital and health system boards take concerning executive compensation. Boards should use a committee process, adopt a “compensation philosophy,” and use independent experts, as is commonly done in matters of executive compensation. The organization should also:

- Be able to indicate how compensating board members will benefit the organization and/or the community
- Determine what is considered “reasonable” and why

- Determine which of the board members will be compensated: the chair, board officers, or all board members
- Determine the compensation structure (i.e., flat fee, retainer, per diem, formula), how it will be distributed, as well as tax implications and legal compliance
- Assess the potential impact of compensation on director “independence”

In particular, director “independence” raises issues for board compensation, especially with regard to the “rebuttable presumption.” Not-for-profit hospital and health system boards cannot vote on their own compensation, especially if they want to obtain the benefit of the IRS rebuttable presumption, because of the inherent conflict. The chief executive cannot vote on, or approve, director compensation because he or she is employed and compensated by the board.

Boards can construct a committee comprised of people who will not receive or benefit from the proposed compensation. As T.J. Sullivan noted, “You can form sort of a ‘blue-ribbon’ committee, one that might consist of former board members, public officials, community members—something along those lines, a process that closely approximates the rebuttable presumption process.”

The ultimate decision of whether to compensate non-profit board members is determined by the organization, based on its culture, funds, members, donor expectations, state/local regulations, and the image it wishes to portray. If a not-for-profit governing board believes that director compensation is appropriate, reasonable, and/or necessary, it must abide by appropriate legal guidance and standards, as indicated in this section. The process should be transparent—the basis, reason, determination process, and amount of compensation must be communicated effectively to key stakeholders so as to avoid potential controversy.

Use of Professional Recruiting Firms

The high demand and short supply of board talent leads to the inexorable fact that healthcare organizations now are not only competing for board talent, but for the best talent. Hence, we see more hospitals and health systems beginning to engage professional recruiting firms to identify, attract, and recruit their board talent—in the same manner that they do for other, high-level executives.

One obvious reason why some organizations are using national recruiting firms is the sheer size of some health systems. Many organizations have migrated from the “solo” community hospital to large, regional, and even national health systems. Accordingly, some boards have to venture beyond the traditional community to find board talent—often talent and expertise that was not needed in years past, such as quality, safety, innovation, compliance, and change management.

Further, there are sometimes very pragmatic reasons for bringing in a search firm. For example, one health system interviewed indicated that it wanted a physician board member who was “independent” and not part of the existing medical community. They were seeking someone with the essential clinical

⁸⁰ Kathryn C. Peisert, *Dynamic Governance: An Analysis of Board Structure and Practices in a Shifting Industry*, 2011 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

perspective but with more objectivity and who did not have a vested financial interest.

We spoke with recruiters from two executive search firms that have worked with hospitals and health systems to recruit board members, and they shared their opinions on why there has been an uptick in board talent searches. “Many of our board clients are searching for more objectivity in terms of their thought process and strategy,” explained Michael Corey of Phillips DiPisa in Chicago. “They want the best and brightest minds. One of the obvious things is the increasing desire to build a board based on functional expertise—trying to get the best talent.”

Other reasons for using professional search firms include:

- Obtaining people with talent or expertise not readily available in the community
- Having an independent expert to vet candidates
- Desire for more independence, especially when confronted with difficult decisions
- Expertise in finding “the right match” (including cultural considerations)
- Objectivity

Jim Gauss, chair of board services at Witt/Kieffer believes this trend of board talent searches will increase and is now focusing his career in this area to help meet the demand for board talent. “I’ve dedicated much of my career to conducting board of director searches, as well as board succession and skills assessment engagements,” he said. “This work is just too important. During this time of monumental change, healthcare organizations are incredibly focused on finding the best board members possible. We have no problem developing a strong and diverse candidate pool from inside and outside the industry. Even when the search is ‘within the community’—we have a more diligent and thorough selection process. Our clients are dedicated to finding not just good candidates, but the most talented and board-ready candidates who can bring the personal skills and content knowledge necessary to have an immediate and lasting impact in the boardroom.”

Finally, the movement towards professional recruiting firms to attract and recruit new board talent reflects not only that governing boards are taking their governance obligations more seriously than they have in the past, but also the value of governance, the value of the board—that now constitutes a very important and integral part of the organizations’ strategic human capital.

Conclusion

Hospital and health system governing boards are essential teams made up of key players that make a direct difference in the level of performance the organizations they oversee can achieve.

DURING A TIME OF TRANSFORMATIVE CHANGE IN THE healthcare industry in which nothing is certain, the one certainty that exists is the increasing difficulty of recruiting effective directors. As described in this white paper, this difficulty is compounded by the fact that the talent of each individual on the governing board has never been more important to the success of the organization.

In this white paper we presented a framework for implementing a talent management plan, which ultimately will become an ongoing, intentional aspect of the board's continuous governance enhancement process. Boards and organizations that successfully implement this kind of board recruitment and

development plan will treat governance as a top priority, with the importance of directors akin to that of executives, managers, physicians, nurses, and frontline staff. This strategic human capital needs to be engaged and nurtured, and allowed to thrive in an environment in which their unique talents can shine—where they can do their best work. From the need to recruit younger and more diverse directors to the increasing use of technology to facilitate board recruitment, board business, and even board meetings, the board of the future may indeed look very different than today's board, bringing our healthcare organizations into a future of value-based, innovative healthcare delivery.

Appendix 1. Intentional Governance Assessment

Please indicate your level of agreement for each item.

Board Recruitment	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
1. The board considers the organization's needs first when recruiting directors (i.e., correlates the organization's current and future plans with directors' competencies and skills such as risk, clinical integration, quality and safety, etc.).						
2. The board seeks directors with specific competencies and skills based on current/future board needs.						
3. The board has written requirements for training/education experience for potential directors.						
4. The board considers the various needs and perspectives of key stakeholders (patients, employees, the community) when recruiting directors.						
5. The board has adequate representation from the community and strives to maintain community representation.						
Board Structure	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
6. The board is the right size for our organizational needs.						
7. The board's committee structure is effective for the needs of the organization/board.						
8. The board has clearly defined roles and responsibilities, and holds itself accountable to those.						
9. Directors understand and demonstrate the difference between governance and management.						
10. Board meetings are as effective/productive as they can be.						
Board Culture	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
11. The board has established clear behavior expectations for directors.						
12. The board's culture encourages robust and engaging discussions with input from all directors.						
13. Directors have a mutual trust and willingness to take action.						
14. The board is committed to achieving high performance standards for itself that have been identified and agreed upon.						

Education & Development	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
15. The board has an effective, formal board orientation program.						
16. The board has an effective, ongoing board education plan.						
17. The board has formal education goals and a process to meet those goals.						
18. The board has devoted adequate resources to board education and development.						
Evaluation & Performance	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
19. The board conducts an effective and meaningful board self-assessment regularly (every year or every other year).						
20. The board committees formally assess their own performance.						
21. The board has a process to assess individual director performance.						
22. The board effectively measures and monitors changes in board performance as a direct result of the formal self-assessment.						
23. The board has meaningful criteria and a formal process to evaluate the qualifications and competencies for appointing and reappointing board members.						
Continuous Governance Improvement	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
24. The board has a formal board mission statement, vision, and values (separate from the organization's mission statement).						
25. The board has a formal process to continuously evaluate, monitor, and track its own performance and effectiveness (in addition to the annual or biennial self-assessment).						
26. The board regularly reviews its processes and procedures to evaluate their necessity and effectiveness.						
27. The board periodically discusses its perceptions and beliefs to determine if the board's culture is in line with organizational needs.						
28. Directors feel welcome to challenge and change board culture to best facilitate achievement of goals for both the board and the organization.						
Leadership Succession Planning	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/not applicable
29. The board has a formal process and written policy statement on leadership succession planning.						
30. The board has leadership position descriptions that are updated regularly.						
31. The board has developed selection criteria for its board leaders.						
32. The board has a formal process to identify and develop board leaders.						
33. The board has a formal process to evaluate board leaders.						
34. The board makes a direct connection between its criteria for board leaders and its criteria for new directors.						



