

## How Boards Change in an Age of Exponential Change

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**Since ancient times, thinkers have debated the philosophical question of the “Ship of Theseus”: If a ship’s parts are replaced one at a time with newer parts, is it still the same ship?** If not, then with which incremental change did it become a new ship?

The same could be asked of a governing board. What types of change and what degrees of change make a board a “new” board? Many boards are desperately trying to answer that exact question. Executives and board members recognize that novel challenges require “new” boards—if not entirely new in their composition, at least having new skill sets, and a preparation to tackle new challenges they never had to consider in the past.

To take the ship analogy one step further, and to illustrate the challenge boards face, consider that hospitals and health systems may be required to transform into something quite different than before. It is one thing to replace all the parts of an old ship; it is another to replace them one by one with airplane parts and hope that the thing will work correctly (safely!) throughout and after the transformation. In this period of unprecedented change, hospitals and health systems must evolve, and their boards must also evolve in order to keep up.

This article explores why and how boards need to change and introduces some strategies to help facilitate those and other changes.

### Unprecedented Change Is Required

Historically, healthcare boards have provided a source of great stability. Whereas the average healthcare CEO turns over every three to five years, the average board member serves nine years (boards commonly limit members to three three-year

terms). But stability has its downside: boards do not turn on a dime. It takes considerable time for boards to bring in new expertise or educate themselves to be sufficiently prepared to deal with new issues.

Consider that many of the major issues requiring board attention have either evolved dramatically in the last few years (e.g., cybersecurity) or did not even exist a few years ago (e.g., COVID-19). Often, boards feel barely ready to deal with the latest challenge, much less ready for unknown future challenges.

## **How Do Boards Need to Change?**

To prepare for current and future challenges, boards must be as agile as possible. But The Governance Institute's 2021 biennial survey of hospitals and healthcare systems reveals some key practices where boards are *not* so nimble.<sup>1</sup>

### ***Board Composition***

Women make up only about one in every four board members, and ethnic minorities make up one in every eight board members. While the racial justice movements of 2020 helped increase calls for greater diversity, boards have been both slow to improve in this area and to increase diversity in other areas such as gender, talent, and geography. Boards recognize the need for change, but significant movement hasn't taken place.

### ***Board Structure***

Effective governance and oversight are often inhibited by inefficient board practices and structures that resemble a Frankenstein's monster. Many boards have examples of bylaws, board seats, or reporting mechanisms that were created to satisfy an immediate need but seem less well-thought-out in hindsight. Boards frequently struggle with "committee bloat" or "committee creep": committees were created based on a temporal need but continue to operate into perpetuity. As the number of committees grows, board members are stretched thin with meetings and unnecessary or redundant work. Almost half of boards do not have a strategy to curtail this by taking regular time to assess whether their committees are effective or even necessary.

1 This article includes findings from The Governance Institute's 2021 Biennial Survey of Hospitals and Healthcare Systems. The full report will be available this fall.

## ***Executive Succession Planning***

A nimble board is ready to act, even in a situation as disruptive as the departure of the chief executive—a situation that also presents one of the greatest disconnects between board idealism and board reality. While more than 80 percent of boards report that they believe CEO succession is a critical board responsibility, fewer than half maintain a written CEO succession plan. Yet even recently hired CEOs need a succession plan. In the absence of a clear plan, the organization will not be able to adjust quickly, and significant strategic opportunities may be missed. Some unlucky boards have had to replace several executives in rapid succession, with each unprepared-for-departure taking a larger toll than the one before.

## ***Community Health***

Research shows that boards are devoting more of their energy to overseeing how well their organizations are meeting the health needs of the community. Still, more than a third of boards do not have a strategy to address social determinants of health. As a result, some of the greatest factors affecting health system reimbursement, readmissions, and actually improving the health of the community go unaddressed. The board of tomorrow must grow in this area for the organization to stay relevant.

## ***Enterprise Risk***

While almost all boards are focused on compliance (often with a dedicated compliance or audit and compliance committee), more than a third of boards do not have a strategy to oversee enterprise risk. As a result, risks are often dealt with by various operational silos, and existential risks to the organization fly under the radar. Boards need to hold executives accountable to look at the entire set of risks facing the organization, and they need to prioritize discussion of enterprise risk during board meetings. The agile board will modify its agenda and discussions to make room for this, and some boards will find this shift to be mission-critical.

## **Strategies for Change**

Change is daunting for many reasons: limited time, competing priorities, differing views about how to change, whether change is necessary, and so on. And yet, the same study that shows boards falling short in their adherence to best practices in some areas, shows boards *increasing* their best practice adoption in other areas. What are those boards doing? How can your board be the type of board that embraces the changes it needs to make? Here are a few practices to consider:

- **Make it visible.** Nothing will happen if no one knows what needs to change. Simple transparency and visibility can prevent things from staying “out of sight, out of mind.” An easy way to make things visible is to produce a summary of the board’s practices and activities during the past year, and to compare that with data on how other boards are operating. The Governance Institute’s biennial survey will provide a useful benchmark for your board to compare against. You will likely discover some low-hanging fruit—practices that are ripe to be changed that no one had put much thought toward.
- **Recognize the progress you’ve made.** Change seems especially daunting when we view our board’s practices as binary (“We aren’t doing it now. We need to start”). Viewing the evolution of the board as an ongoing journey makes change easier to digest. Think of a change as one more step along a journey you are already undertaking. For example, if you are trying to increase the ethnic diversity of the board, point out any changes to board composition that were previously made to show that you are already on a journey of evolution. If you cannot identify *any* steps that have been taken in the direction you need to go, take the first step yourself by utilizing the previous tip: make the issue visible. This can help propel you towards positive change.
- **Repeat and double down on what has worked.** Change often seems hard when there is no apparent precedent for what needs to happen. But if you can find a similar situation—even remotely similar—you can learn from it and reduce the amount of energy needed to tackle something new. Take the example of establishing a CEO succession plan. It may have been a long time since your organization transitioned a CEO, but dozens of other organizations have done this recently. Look for examples from other hospitals and health systems, and leverage resources like The Governance Institute to see what a best practice CEO succession plan looks like.
- **Make incremental changes.** For many board processes and activities, the board can envision a future ideal state, but it is difficult to envision a clear path to migrate there from the current state. Some changes require taking several steps, seemingly all at once. But what if instead of taking all those steps concurrently, the board took just one of those steps now—even while acknowledging that the one step may not be enough to bring about the change? Often, taking the first step leads naturally into the bigger, more difficult steps. The Governance Institute worked with a health system board that wanted to migrate from being representation-based to competency-based. This was a major shift for this board, and the only task they had the energy to take on

initially was to survey board members about their various backgrounds and areas of expertise. However, taking this one step led to board discussions about increasing board diversity. As it turned out, the board discussions led to the recruitment of several outstanding board candidates. The board did not need to map out as much as they expected; they just needed to take the first step.

- **Automate change.** Change is inevitable, so why not automate it? Put time on future agendas, schedule regular executive sessions, and create “rules” so that reminders and opportunities for change are ever before you. As an example, a board suffering from the aforementioned “committee bloat” could create rules about when it is time to sunset a committee or reevaluate a committee’s purpose. By making this a part of the board’s workflow, the board can ensure that time in the future will be dedicated to keeping things streamlined. The goal is to create a culture of continuous introspection so that sudden, seismic change is rarely necessary.

## Conclusion

Driving change requires both an awareness of where your board could be falling behind, and a strategy to simplify the change needed. The role of the governance support staff in building that awareness and strategy cannot be overstated. While only the board can vote on strategies or policies, the staff can share information, track progress, and manage governance activities in a manner that catalyzes change and helps the board to adapt. And when they are armed with robust internal records and national perspectives on what boards should do, they will be uniquely equipped to help boards become the boards that future challenges require.

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