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Governance Notes

Does Your Board Have Strategic Discussions?

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Since the onset of the pandemic, many boards report they are spending more time on strategy and engaging in strategic discussions.

Contrastingly, however, boards are also still stating that strategic oversight is one of the top areas in need of improvement. In The Governance Institute's 2023 biennial survey of hospitals and healthcare systems, boards reported that only 30 percent of their time is allocated to active discussion on the strategic priorities of the organization.¹ While more time spent on strategy is both desired and necessary, there is no guarantee that lengthier discussions will yield robust debate and forward-looking insights that help move the organization toward its intended end state.

So why don't more boards have effective strategic discussions? There are several factors that may influence this, including the amount of time dedicated to a particular topic, leadership and board capability, board agenda structure, and board culture and dynamics. The absence or presence of these elements can promote or inhibit strategic discussions, therefore, it is important to determine which ones may be impacting the quality of your conversations. This article poses a few questions (and offers suggestions) to help determine where your board might need to change its current approach to yield more strategic discussions.

1. Does the board engage management appropriately in the development of a robust strategy that defines strategic priorities, clear milestones, and success metrics? One reason a board may not be discussing strategy or strategic priorities is that the board and management have not agreed on the strategic priorities, and/or the key milestones and metrics that signal progress against those strategies are unclear.

Boards are stating that **strategic oversight** is one of the top areas in need of improvement.

1 Kathryn Peisert and Kayla Wagner, The Governance Institute's 2023 Biennial Survey of Hospitals and Healthcare Systems, 2023.

Management may provide routine updates on financial performance or other areas of the organization that are monitored and measured with no clear guidance on how those measures are tied to the strategy or how those metrics impact the strategy.

To prevent these situations from happening, effective boards engage with management early on when shaping the strategy, reaching agreement on priorities and success measures, and confirming upfront when and how the board will be involved in any strategy-setting exercises. In addition, boards should agree on the cadence of report-outs, and when and where the board needs to be apprised when significant milestones are missed to allow for adequate discussion of any changes or course corrections.

2. Does the board set aside at least 50 percent of each meeting for discussion of strategic priorities, and do board materials provide enough information to allow for robust debate?

In The Governance Institute's 2023 biennial survey, boards report that on average more than 57 of meeting time is allocated to hearing reports from management and board committees.² While the use of a consent agenda is now common practice for most boards, board agendas continue to be filled with updates on a litany of topics that have no clear link to the strategy. To ensure the board is spending enough time on strategy:

- **The board chair and CEO should ensure complex topics receive adequate time on the agenda and are focused on issues that require the board's decision in the near or immediate future.** Agendas with too many topics can curtail generative discussion, as often board members do not want to be seen as the individual that derails tight agenda timelines by asking questions or engaging in deeper discussion.
- **Utilize dashboards and summaries** to provide updates on routine matters that require board oversight but do not necessarily require board discussion. Ensure analyses provide appropriate context such as historical trends, external benchmarks, and other relevant data points. Analyses should emphasize long-term trends rather than near-term budgets or metrics and closely match how the organization measures performance. Ensure results include inputs and drivers to provide insights as to how outcomes have been achieved.
- **Propose limits on the size of presentations and request that all board materials include an executive summary** that describes why the topic is being presented, how it is linked to strategy, any underlying assumptions, if it requires a board decision, and the pros and cons to any decision being requested. While this can take more time for management to prepare, it will help to focus the board on the most important matters and increase the likelihood of insightful discussions that yield more value-driven guidance and decisions.

Plan to set aside at least 50% of each meeting for discussion of strategic priorities.

2 *Ibid.*

- **Ensure committee updates are not report-outs of discussions but rather focus on board actions and/or decisions.** The board can review committee meeting minutes in advance to stay apprised of routine matters, thereby freeing up time on the board meeting agenda.

Key Board Takeaways

Holding strategic discussions requires discipline around agenda setting, material preparation, leadership and board capability, and strong board–management dynamics. If your board is not engaging in robust strategic discussions, it is likely due to multiple factors. We encourage the board to consider which of the following underlying issues may be contributing to a lack of focus on strategy:

Structure (Agenda and Board Materials):

- Allocate at least 50 percent of each agenda to strategic topics.
- Require executive summaries for all presentations.
- Use dashboards for routine updates and include historical context and drivers of changes in data.
- Limit presentation size.

Leadership:

- Include facilitation skills in board chair job responsibilities/training.
- Ensure there is a close and healthy working relationship between the board chair and CEO.

Capability:

- Evaluate needed board capability when the strategy is being redefined or refreshed.
- Onboard needed capabilities as board members retire or term out.
- Ensure the CEO (and/or the management team) can articulate a long-term strategy.

Board–Management Dynamic:

- Proactively develop an open and trusting relationship with management.
- Select new board members that fit and support a culture of psychological safety and trust.
- Proactively develop and nurture a board with high emotional intelligence that believes in and upholds mutual respect and trust as a core tenet.

3. Does the board and CEO have the necessary capabilities? Directors are increasingly vocal that their peers do not have the necessary skills to serve on boards. In PwC's 2022 Annual Corporate Directors Survey, 48 percent of directors said they would replace at least one member of their board.³ As new technologies and risks emerge, and as strategies evolve to cover an ever-expanding array of complex pursuits, boards need directors with the knowledge and experience to delve into these matters and understand the opportunities or risks associated with managing related actions. Gaps in skill and experience may promote a more passive board that uniformly agrees with whatever management proposes.

In the same vein, if the CEO is unable to articulate a compelling and relevant vision for the future and develop a supporting strategy, it will impact the board's ability to have strategic discussions. Ensure the CEO has the necessary skills to frame and lead the organization and best prepare and position it for future opportunities.

4. Does the board chair effectively facilitate board discussions to promote robust discourse, allow for deeper understanding of issues, and reach agreement on strategies?

An effective board chair plays an important role in enabling strategic discussions by ensuring the agenda reflects critical priorities. Successful chairs also focus on strategic topics that require action in the present or near future and work closely with the CEO to identify matters needing board review and discussion.

In addition, a skilled chair ensures the full board is engaged in healthy debate where contrasting views receive adequate airtime. They allow the board to work through any conflict and help identify commonalities to help bring the board back together to reach a decision. Without the chair's intentional stewardship, boards can easily be dominated by one voice or the viewpoints of a small minority, and/or deviate into topics and points that are not salient to the conversation or do not build general agreement on key decisions.

5. Does the board have a collaborative and open relationship with the CEO and management?

It is vital that management feels safe sharing not only optimistic progress reports on strategies and/or promising views of future opportunities, but also failures and actions that may pose future risks. These discussions require relationships built on transparency, mutual trust, and respect so that when bad news is presented, the board avoids casting blame and instead seeks to understand issues and work collectively to solve the problem at hand and mitigate any associated risks.

Boards that invest in developing a culture that promotes psychological safety and mutual respect are more likely to work together effectively when navigating conflict.

3 "PwC's 2022 Annual Corporate Directors Survey," PwC, October 2022.

6. Does the board have a culture that promotes psychological safety and mutual respect?

For boards to have difficult conversations on strategic topics that potentially represent high stakes, directors need to be able to contribute their differing views without risk of being shut down or embarrassed. Boards that focus on building strong relationships, allow individuals to feel a sense of belonging, give room to challenge the status quo, and are open to learning will benefit by having more open communication, knowledge sharing, creativity, and positive attitudes. Boards that invest in developing a culture that promotes these types of attributes are more likely to work together effectively when navigating conflict.

The Governance Institute thanks Christine Bassarab, Ph.D., JoAnn McNutt, Ph.D., and Sara Finesilver, M.S., Organizational Psychologists and Board Consultants at Board First Consulting, LLC, for contributing this article. They can be reached at christine@boardfirstconsulting.com, joann@boardfirstconsulting.com, and sara@boardfirstconsulting.com.

