# Trust: A Board–CEO Imperative

*By Deborah J. Bowen, FACHE, CAE, American College of Healthcare Executives, and Pamela R. Knecht,* **ACCORD** *LIMITED*

Working in the healthcare field has become even more challenging and complex over the last few years. Most hospitals and health systems have recently experienced workforce challenges, operational strain, disruptive pressures from new players, lower investment performance, and declining margins. Each one of these issues is arguably a key governance topic that requires the executives' and board's best thinking and analysis to exercise their fiduciary roles and do their best for patient care.

Healthcare organizations today—starting with the board and CEO—are trying to address these challenges while also ensuring high-quality, safe, equitable, accessible, affordable healthcare. In the current, very challenging environment, easy answers are in short supply. Indeed, leading today is a big job that, understandably, is resulting in tensions of a new magnitude as boards and executive teams navigate their way to the future.

## A Strong Board–CEO Relationship Is Imperative

In our decades of work with boards and CEOs, we have noticed that those who have a healthy, trusting relationship are able to deal with stresses like these more easily and productively than those whose relationship is strained. Unfortunately, today's pressures seem to be causing and/or highlighting tensions in the board–executive relationship.

For instance, with increased uncertainty, some board members are demanding more detailed information about financial and other challenges. If they perceive that their CEO and executives are reluctant to provide that level of information quickly and transparently, or intentionally omit key information, some board members may begin to feel that they cannot trust their executives to be honest about the negatives as well as the positives.

On the other hand, when boards continue to press for more data, some CEOs and executives may feel that their boards are crossing the governance–management line and/or that the board does not trust them to do their jobs. The result is often a difficult relationship between the board and its CEO and other key executives.

One possible negative outcome of unaddressed relationship issues could be the exit of the CEO. A June 2023 report from Challenger, Gray & Christmas regarding dramatically increased CEO exits across industries states that "the 80 (CEO) moves within hospitals from January through May were up 70 percent from the 47 recorded in the same period of 2022. The number marks the third-highest year-to-date total across all 29 industries and sectors measured."[1]

Some CEOs have told us in confidence that they left because of a poor relationship with their boards. Therefore, it is interesting to note that according to The Governance Institute's biennial survey, for over a decade, boards have routinely rated their performance in the "board development" category as the lowest of all nine fiduciary duties and core responsibilities.[2] And they have consistently rated "management oversight" as fifth or sixth behind financial oversight and the three core fiduciary duties (see sidebar).

### Key Board Takeaways

These diagnostic questions can help ensure there is a strong, mutually trusting relationship between the board and CEO. It is important to keep in mind that trusting board–executive relationships require a healthy dose of introspection, focused dialogue, and carefully structured and facilitated discussions. To begin, consider these questions:

1. (For CEOs and Key Executives) On a scale of 1–10, where 10 is high, how would you rate the level of trust between the CEO/executives and the board?
2. (For Boards) On a scale of 1–10, where 10 is high, how would you rate the level of trust between the CEO/executives and the board?
3. If any of the ratings are lower than desired, explore these possible reasons:
   a. Capabilities
   b. Candor
   c. Intent
4. Which of the following levers offer the best opportunities to improve the board–CEO partnership?
   a. Communicate regularly and transparently.
   b. Use competency-based selection.
   c. Set clear expectations.
   d. Prioritize healthy, collaborative relationships.
   e. Check in and improve.

For over 10 years, boards have rated their performance in "board development" lower than their performance in any other governance responsibility and "management oversight" performance has been fifth or sixth.

**Overall Performance Year Over Year—Ranked by Composite Score**

| Fiduciary Duties and Core Responsibilities | Performance Rank | | | | |
|---|---|---|---|---|---|
| | 2021 | 2019 | 2015 | 2013 | 2011 |
| Financial Oversight | 1 | 1 | 1 | 1 | 1 |
| Duty of Loyalty | 2 | 2 | 3 | 3 | 3 |
| Duty of Obedience | 3* | 3 | 5 | 4 | 5* |
| Duty of Care | 4* | 4 | 2 | 2 | 2 |
| Management Oversight | 5 | 5 | 6 | 6 | 6* |
| Quality Oversight | 6 | 6 | 4 | 5 | 4* |
| Strategic Direction | 7 | 7 | 7 | 7 | 7 |
| Community Benefit & Advocacy | 8 | 8 | 8 | 8 | 9 |
| Board Development | 9 | 9 | 9 | 9 | 8 |

**Performance scores for these oversight areas were tied.*

1 Challenger, Gray & Christmas, Inc., *Challenger CEO Turnover Report: Highest CEO Exits on Record,* June 22, 2023.
2 Kathryn Peisert and Kayla Wagner, *Advancing Governance for a New Future of Healthcare,* The Governance Institute's 2021 Biennial Survey.

These are troubling facts since we know that high-performing organizations are led by boards and executives that are each continuously improving and are communicating well about development opportunities.

## Trust Is the Crucial Component

In countless conversations we have had with boards and CEOs, the question of how they work together has determined success or failure. One core element that hovers in the background of every board discussion—whether apparent or not—is trust. As Mike Dandorph, President and CEO of Tufts Medicine said recently, "Building a foundation of a strong, trusting, and fully transparent relationship with the board is essential. Without this, maneuvering through the current challenges in healthcare would be much more difficult than they already are." Gary Campbell, Board Chair of Tufts Medicine concurs. "This foundation of a good board culture, led by a strong partnership between the board chair and CEO, allows the board and management to engage in open, vigorous discussions, with diverse views expressed, that determine the strategic direction of the organization."

In this article, we propose that trust is essential to the board/CEO partnership and needs to be prioritized to build a strong, productive relationship between the board and CEO so they can, together, provide much needed leadership to their organizations during challenging times.

## A Diagnostic Tool Regarding Trust

The Merriam-Webster dictionary defines "trust" as "A firm belief in the reliability, truth, ability, or strength of someone or something." Ideally, this is how the board feels about its CEO, and how the CEO sees their board and its members. However, we have heard too many stories of boards and CEOs who do not have a relationship of mutual trust.

In these cases, it can be helpful to identify possible reasons for any mistrust. We offer here a diagnostic tool that is a variation on work done by Roger Mayer and his colleagues who described these three elements of trust: ability, integrity, and benevolence.[3] Based on our experience, we find a helpful way to describe these elements is*: capability, intent, and candor.* Each of these elements is explored below.

### Capability

The term "capability" is used here to mean the skills, experiences, and expertise of an individual or a group. For instance, for a board to trust its CEO, the board members must believe that the CEO has the skills and experience to lead a complex healthcare organization. In one organization we know, a health system board ultimately concluded that its current CEO did not have sufficient ability to think and plan strategically in their highly competitive market, so it did not trust the CEO to continue leading the organization. The board ended up asking the CEO to leave and conducted a national search for someone with proven strategic abilities in addition to all the other capabilities needed by a system CEO in these times. In addition, the board revised its CEO selection process to include more due diligence regarding track records of candidates.

On the flip side, a CEO may not trust the board or individual board members if they have not had any experience as senior executives in a large organization. In this situation, it is often difficult for the CEO to trust the judgement of their board regarding complex decisions.

In either of these cases, the relationship suffers because one party does not trust that the other has adequate abilities/capabilities to do their job.

### Intent

Intent becomes an issue in the board–CEO relationship when one party believes the other has ulterior motives. For instance, some CEOs may not fully trust some physician board members who have significant conflicts of interest. In one health system, physician board members shared confidential information about the system's potential purchase of a physicians' practice, which put the executive who was negotiating that deal into a very difficult situation. Understandably, the CEO and her executive team became concerned about sharing complete information with the full board, which ultimately led to some mistrust between management and the board.

At times, the board may question the CEO's intent. There have been instances where the CEO has had a sub-agenda that caused the board to question his/her trustworthiness. In one example, the CEO was employed by a company providing management services to the hospital, and some board members began to feel that the CEO had a hidden agenda to sell the hospital to that company.

If anyone, board member or executive, questions another's motives or intent, it is difficult to trust them.

### Candor

The third key element of trust is candor. As mentioned above, some CEOs are not fully trusted by their boards because some board members think that the CEO is only sharing good news, and not bad news. This causes the board to wonder if the CEO is being honest about the organization's performance. We know of an example where a CEO chose not to promptly share with the board a 2-star rating that had been received by the Centers for Medicare and Medicaid Services (CMS) regarding a quality measure. Once the board found out about the low score, there was a rift in the board–CEO relationship.

Sometimes it is a board member that is not being honest with the executive team or CEO. In one case, someone agreed to chair the board's finance committee without admitting that he was not sufficiently knowledgeable to do the job. In this scenario, the board member was not being honest *and* did not have the requisite capability.

For a list of tools and practices for addressing issues related to capability, intent, and candor, see bit.ly/3PV5WuG.

## Trust as a Lever

In each of these scenarios, trust was compromised, illustrating that the stakes can be high for both the organizations and for the individuals involved. In our framework, when capabilities, intent, and/or candor are questioned, trust becomes absent, friction emerges, and the climate for effective decision making devolves. In this environment, neither the board nor the executives are fulfilling their fiduciary duties to the organization and communities they serve.

Equally important is that capability, intent, and candor can set the stage for trusting, productive, healthy working board–CEO relationships where superior results and performance can be achieved. In recent conversations

3 Roger Mayer, James Davis, and David Schoorman, "An Integrative Model of Organizational Trust," *The Academy of Management Review*, 1995.

with CEOs and board members about trust, the key ingredients noted include respect, candid dialogue, confidentiality, and transparent communication. As such, a trusting relationship is equal in importance to the contents of the board agenda.

In his book, *The Speed of Trust,* Stephen Covey notes that trust is a combination of character (your integrity and motives) and competence (your capabilities and track record).[4] To gain and keep trust, it must be practiced in each relationship, in every encounter. As Covey notes, it is the product of how we "see, speak, and behave." Realizing the full benefit of trust is the job of every leader—in the boardroom and in the executive ranks. It is as powerful and fragile as anything else we do as leaders.

## Trust-Building Advice

In past ACHE surveys and more recently, in talking directly to board members and CEOs about trust, certain themes prominently emerge. What is most striking about these conversations is their similarity. These themes are not new, and they have formed the core of leadership effectiveness for decades. Yet nearly every leader interviewed emphasized their importance. They also stated that good governance is about people—the relationships we have and steward—and ensuring their trust may be the best governance practice today.

Here are the themes from those interviews as well as from our experiences regarding how to build or strengthen trust. These are codes of conduct for the CEO, executives, board chair, and board members equally; trust is everyone's responsibility.

**Communicate regularly and transparently**. Proactive, transparent communication was voiced most prominently as critical. It is imperative to share good news and bad news when needed and follow the "no surprises" rule. Honesty in communication is the foundation of all three elements described above. Mark Marsh, President and CEO of Owensboro Health in Kentucky asserts, "Transparency, communication, and building trust are key to a great relationship between the CEO and board."

Further, there is an adage that "sending is not the same as receiving." Listening is an important part of communication and taking time to hear the full information may prevent any misconceptions about intent. Therefore, the goal is to create a real, two-way understanding between the CEO and board before discussing further action.

Specific tools to assist with communication include establishing a CEO–board communication plan that includes multiple vehicles (e.g., a monthly, written CEO report and/or quarterly video regarding the status of the organization vis-à-vis its strategic imperatives).

**Use competency-based selection**. Both board members and CEOs emphasized the need for each party to have sufficient capabilities to handle their roles. This highlights the importance of a well-designed CEO selection process, and a robust, competency-based approach to board selection and reappointment. The basis of an effective CEO selection process is the CEO profile, which should clearly articulate the expertise, experiences, and behaviors that the organization needs in its leader. ACHE and The Governance Institute each have resources and tools to assist with this crucial governance job.

Similarly, best-practice boards use a competency-based (versus a representational) approach to board member selection. They identify the skills, diversity, perspectives, and behaviors that the board needs to ensure it can adequately oversee management. Those competencies include strategic thinking and complexity management, as well as expertise in finance, quality, law, etc. One interviewee stated, "Select individuals with varied and complementary backgrounds, who can devote the time and will assist with immediate and long-term objectives of the organization." Just as important is to use the same competency-based approach to determine whether to reappoint board members when their terms have expired. That practice can free up space on the board for individuals with newly needed expertise such as cybersecurity or population health management.

**Set clear expectations**. Boards and executive teams have certain responsibilities to fulfill. Performance expectations and role clarity are both needed. Both board and executive team members need to understand the difference between strategy vs. operations and governance vs. management and then structure their meetings and materials accordingly. In equal measure, boards and leaders must understand their responsibility outside the meetings. Both formal and informal behavioral expectations should be clear.

Practical steps here include providing initial and ongoing education to board members and executives regarding governance roles and responsibilities (e.g., fiduciary duties, core governance responsibilities, the governance–management distinction). In addition, developing written job descriptions for the CEO, board officers, and board members will help clarify roles.

**Prioritize healthy, collaborative relationships**. Make cultivating relationships between the board, CEO, and key executives inside and outside of scheduled meetings part of the CEO's and board chair's work. Managing relationships may be the hardest task as conflicts do and will arise. What is most important is getting tensions resolved and doing so quickly. Making time to build and improve relationships can help provide insights into individual specialized expertise and result in a greater understanding of interests and motives, while deepening experiences overall. Connecting people to purpose, and purpose to results, strengthens culture and results.

The healthiest board–CEO teams have developed a code of conduct and a board–CEO agreement that state what each expects from the other. For instance, the board and CEO might agree that they want a culture of collaboration and accountability and that their interactions will be governed by a code of conduct. That code could include behavioral guidelines such as:

- Focus on the mission.
- Assume good intent.
- Be honest.
- Keep conversations confidential.
- Declare potential conflicts.

The CEO may expect that board members will prioritize education, preparation, meeting attendance, committee service, and active engagement in discussions. He or she may also prefer that board members communicate directly with the CEO and/or select senior executives. The board may want the CEO to provide materials in a timelier manner, to elevate the materials to the governance-level, and to be transparent with both good

4 Stephen R. Covey, *The Speed of Trust: The One Thing That Changes Everything*, Free Press: New York, NY, 2006.

and bad news. Board expectations may also include a desired cadence of communication from the CEO.

These board–CEO codes of conduct and expectations agreements should be openly discussed and agreed upon in a facilitated retreat setting. (See the "Key Board Takeaways" sidebar on page 5 for some of the questions to be addressed in such a session.)

**Check in and improve**. There is no substitute for open communication about the development needs for both the board and the CEO. No CEO or board are perfect. Jackie Fredrick and Cathy Jacobson, Board Chair and CEO at Froedtert Health, suggest, "We gather feedback through surveys, executive sessions in board meetings, and routine check-ins on an individual basis. Having a mindset of mutual expectations, transparency, respect, and constant improvement grounded in the values of the organization are essential to implementing the feedback." There are also plenty of tools to ensure formal evaluation for boards and CEOs. The key is to create specific improvement goals. The board's governance committee should ensure that one to three board development goals are set and monitored each year. Similarly, the annual CEO evaluation process should result in one to three individual development goals designed to strengthen the relationship with the board.

## Conclusion

Building a mutually trusting relationship between the CEO and board is the secret sauce for leadership to work together to successfully address healthcare's challenges today and in the future. The impact of losing trust cannot be overstated. However, when trust is present, governance will be at its best and will extend beyond the boardroom to result in positive outcomes for patients, organizations, and the communities we serve. Afterall, board members are called "trustees."

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