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The Governance Institute

Critical Communication: Fostering a Culture of Open Inquiry between the Board and Management

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In theory, most of us can agree that effective governance within non-profits hinges on cultivating a culture of positive communication between board members and management. In practice, however, it can be challenging to be on the receiving end of critical inquiry without feeling criticized. Managing the line between vigorous and vicious inquiry has never been more critical in navigating the relationship between boards and management.

Increasingly, board members are tasked with asking the difficult questions. As fiduciaries, board members must fulfill their duty of care toward the organization. At its core, the duty of care requires board members to act with reasonable diligence and prudence in overseeing the affairs of the organization. They need to make informed decisions, exercise sound judgment, and practice prudence in overseeing the organization's activities. This responsibility is critical in fulfilling the organization's mission and maintaining the trust of community stakeholders. Given the increasing complexity of non-profit healthcare operations, such diligence and oversight require open inquiry between the board and senior management.

Despite its challenges, a culture of open inquiry comes with many palpable benefits. Directors who actively engage with the board materials can better navigate the complexities of non-profit operations, and active engagement involves the ability to ask critical questions of management. Such engagement fosters better decision making and encourages innovative solutions, which in turn advances the organization's mission and

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goals. Without such a culture, boards risk succumbing to groupthink, where dissenting opinions are silenced and critical analysis is sidelined in favor of consensus-driven decisions. Rigorous inquiry acts as a safeguard against complacency and ensures that decisions are thoroughly examined from multiple angles.

Yet, for questioning to be effective, there must be a balance of assertiveness with civility. Board members must express their doubts and concerns respectfully to ensure that discussions remain constructive and productive. Management must also understand that questioning is part of the board's duties, not an obstructive technique or an affront to their leadership. Open dialogue, trust, and transparency between the board and management can facilitate candid discussions where ideas can be openly debated and refined. In this way, each party has its own role in cultivating a culture of critical inquiry and open communication.

The Role of the Director

Effective governance in part rests on the shoulders of individual board members, who bear fiduciary duties that mandate diligence and prudence in decision making. At the individual level, directors can foster this culture by being willing to raise questions to contribute to discussions and to explain why the questions are important and in service of the overall decision-making processes for the organization. This is particularly important for the more complex aspects of the organization, such as its finances, challenges, and new opportunities. By increasing the expectation of engagement and questioning, board members can feel freer to effectively evaluate proposals, assess risks, and guide the organization towards sustainable growth and impact. Listening attentively, disagreeing respectfully based on evidence, and upholding a professional tone during discussions further contribute to a productive board environment.

The Role of Management

A relationship between management and board members built on trust and inquiry is crucial for the effective functioning and success of any organization, particularly in the non-profit sector. At the level of management, there needs to be education on what is at stake. For the board to effectively perform its duties of oversight, its members must challenge assumptions, seek clarification, and inquire about proposed transactions or strategic initiatives.

Asking questions demonstrates thoroughness and ensures that decisions are well-informed and does not inherently undermine the proposals of the management team. Questioning not only provides accountability and oversight, it also can help refine the

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senior leadership's strategic vision. The board's diverse backgrounds and experiences should be embraced as adding valuable perspectives that can help challenge assumptions, offer alternative viewpoints, and inform the direction-setting for the organization.

Key Board Takeaways

- **Invite inquiry:** Board members should be encouraged to ask the difficult questions and bring their diverse viewpoints to discussions. The culture of the non-profit organization must encourage different opinions as essential to enriching decision making and contributing to successful outcomes.
- **Foster trust:** Trust encourages open, respectful dialogue among board members and with management. The importance of building interpersonal relationships and nurturing connection cannot be overemphasized. The more that management and the board see each other as teammates, the more that criticism can be seen as constructive. The relationships between the board chair and management and the chair and the board are particularly important to cultivating and maintaining such trust.
- **Frame criticism constructively:** When expressing dissenting opinions, base them on data or facts while maintaining a respectful tone. Constructive criticism aims to enhance outcomes rather than undermine management's authority. Both the board and management should avoid personal attacks or heated arguments and acknowledge the value in others' thoughtful comments. The board should strive to foster a collaborative atmosphere where all perspectives are valued and considered.
- **Commit to civility:** To facilitate inquiry and acceptance, there must be empathy and respect towards others' viewpoints, especially when opinions differ. The board and management should avoid interrupting or dismissing colleagues' contributions. When questioning management decisions or discussing board matters, board members should also practice active listening. Educational sessions on effective communication styles can help ensure that all discussions contribute positively to the organization's goals.

The Role of the Board Chair

The role of the board chair is also central to maintaining effective board–management communication dynamics. The chair plays a pivotal role in managing power dynamics, fostering a positive board culture, and ensuring that board discussions remain focused

and respectful. Emotional intelligence is crucial here, enabling chairs to navigate diverse personalities and motivations among board members. Conflict resolution skills are equally important. The chair needs to be able to address disagreements promptly and constructively, thereby preventing potential rifts from escalating.

The board chair's relationship with management is critical to fostering the appropriate tone at the top. Regular communication and transparency help to mitigate misunderstandings and build mutual trust. This relationship should be characterized by openness, respect for differing perspectives, and a shared commitment to the organization's mission and goals. By fostering a strong partnership, the board chair and management can align their efforts effectively, driving the organization towards greater success. The board itself can help contribute to this relationship by spending more time evaluating leadership and board chair succession and the interplay of that relationship on the culture of communication.

Education and Culture-Building

Collectively, to strengthen communication and its effectiveness over the long term, investment in the ongoing board-management relationship is essential. Training sessions and workshops on respectful debate and active listening can enhance board members' communication skills. These initiatives also clearly set an intention among members that the organization is striving to embody a culture of inquiry while nurturing positive relationships with management. By doing so, the board and leadership can better harness their collective intelligence and ultimately drive meaningful impact for the communities they serve.

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Navigating the Nuances of Executive Compensation and Talent Management in Challenging Times

By Bruce Greenblatt, Managing Director and Executive Workforce Practice Leader, *SullivanCotter*

Healthcare continues to evolve—and some organizations are struggling to keep pace. With complexity at an all-time high and the supply of talent limited, the need to recruit, retain, and engage leadership talent is greater than ever. Designing executive pay programs that are market-competitive and drive organizational performance while also aligning with the overall talent strategy is complicated. Moreover, healthcare boards and their compensation committees are tasked with ensuring executive compensation is fair and reasonable and reflects the mission and values of their organizations—all amidst changing market pressures and growing demands.

Does your organization know how to move forward? With these challenges in mind, this article outlines four important priorities for compensation committees to consider as they oversee the organization's approach to executive compensation, performance, and talent management.

Pay Competitiveness

In a competitive talent market, effectively attracting and retaining key leaders is more pressing than ever. As some leaders continue to step away and as operations become more complex, there is a critical gap in expertise. The skills required to lead through such change are evolving, and greater value is being placed on those able to lead transformation efforts, drive integration, and operate in a volatile environment.

Moreover, demand continues to outstrip supply as the pool of qualified executive talent is increasingly limited. According to SullivanCotter's *Executive Compensation Pulse Survey* conducted in May 2024, 87 percent of health systems are either increasing executive recruitment efforts or undertaking the same level of activity as compared to 2023. All of this is putting upward pressure on total compensation—particularly via higher base salaries.

Compensation committees must ensure that compensation is competitive enough for external candidates and existing high-performing leaders who may be attractive to competitors. Since financial resources are limited, compensation decisions should be measured and strategic, focusing foremost on the most impactful roles. Rewards must

be differentiated in a dynamic marketplace to ensure the total spend is optimized—some roles may be appropriately compensated in the mid-market, while others may warrant a compensation premium based on their criticality and impact.

Talent Strategy and Organization Design

Considering evolving talent needs and the limited talent supply, compensation committees and leadership should pay particular attention to the executive talent strategy and succession planning process. Increasingly, an organization's best source of talent for key leadership roles is found internally. Having a deliberate and ongoing process in place to identify talent requirements, assess availability and needs, mitigate any flight risks, and define and execute development plans is key. Compensation committees should be appraised at least annually of any related succession planning initiatives, including leadership performance, emergency successor readiness, and long-term pipeline development. Given the high demand and changing needs for CEO talent, boards and compensation committees should be especially diligent in developing and monitoring succession plans for this position.

In addition to assessing talent strategy for individual positions, it also is important for compensation committees and leadership to assess the overall organization structure to ensure it is optimized and aligned with strategic objectives. With upward pressure on individual compensation, organizations are assessing whether their total leadership headcount and spend is optimal. In SullivanCotter's recent *Executive Compensation Pulse Survey*, 88 percent of health system participants indicated that they have recently or plan to assess the effectiveness of their organizational structure. These actions include reviewing the headcount, spans of control and management layers, reducing or freezing hiring, and developing titling/leveling/career architecture guidelines. Health systems are focused not only on cost optimization but also on talent development by clarifying leadership role definitions and creating clearly defined pathways for career progression through the organization.

Revisiting Incentives

While the initial disruption of the pandemic has subsided, several market pressures are still changing the way executive performance is measured and rewarded. Compensation committees should ensure that incentive performance measures align with operating and strategic priorities as they evolve and that goals have been calibrated appropriately. With financial and operational volatility as the backdrop, goal calibration for executive incentive

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plans poses a significant challenge. SullivanCotter’s research indicates that nearly half of healthcare organizations have revisited their goal calibration for 2024 incentives.

Changes include the following:

- Evaluating both relative performance compared to peers and absolute scoring results for indicators such as workforce or patient engagement, as an example.
- Widening the range between threshold and target and target and maximum goals to account for volatility and uncertainty in forecasting.
- Setting goals based on expected improvement levels rather than simply absolute scores.
- Seeking third-party assessment of the performance objectives to provide validation around the goals.

In addition to calibrating performance goals, compensation committees should also evaluate incentive program circuit breakers to ensure they remain appropriate. Circuit breaker provisions reduce or eliminate incentive payouts if minimum financial performance is unmet and act as a fail-safe if affordability becomes an issue. Given the volatility of performance in the market and the challenging economic environment, circuit breakers must be meaningful and reasonable. They should balance the need for financial stewardship while also recognizing that other mission-related performance priorities should be rewarded, including delivering high-quality care, ensuring greater patient access, engaging the workforce, and providing exemplary patient service.

Pre-pandemic, a typical circuit breaker would reduce or eliminate incentive awards for performance below 75 to 85 percent of the budgeted operating margin. Such standards may not be appropriate today, with margins hovering, on average, at 1 percent or below. Thus, consideration can be given to setting absolute dollar thresholds for the circuit breaker and/or using a tiered method to reduce awards in pre-defined stages based on actual results. Alternatively, the circuit breaker could be eliminated while a greater weight is placed on financial performance in the organization’s scorecard to ensure an appropriate focus on fiscal stewardship.

Board Governance

With the heightened scrutiny of executive pay levels within tax-exempt healthcare organizations, it is increasingly important for compensation committees to ensure they take a broader view of the compensation program beyond just market competitiveness. As adjustments are considered for the compensation program and individual pay decisions, considerations should also include other essential factors such as pay equity, mission, performance, talent strategy, and more. By adopting a more holistic approach to

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these decisions, boards and compensation committees can ensure that executive reward programs remain highly defensible and beyond reproach as market conditions evolve, new risks emerge, and organizational dynamics shift.

Key Board Takeaways

Is your executive compensation and talent strategy optimized in today's environment? Financial, operational, and workforce challenges within the healthcare industry are at an all-time high. The executive talent market is extremely competitive as the demand for talent continues to outstrip supply. Attracting, retaining, and rewarding leadership is critical.

Boards should consider the following priorities as they reassess their organization's approach to executive compensation, performance, and talent management:

- With upward pressure on total compensation and unabating financial challenges, explore opportunities to optimize compensation spend. Strategies include differentiating compensation for direct rewards to the most critical talent. At the same time, prepare for highly competitive offers when recruiting externally.
- Ensure critical talent is retained and seek opportunities to build from within. Assess talent risk and direct interventions to critical positions that may be at risk. Focus on succession planning and leadership development.
- Optimize the organization structure by focusing not only on headcount, spans of control, and management layers, but also on titling and career architecture to support talent development.
- Revisit incentive plans to ensure performance goals are properly calibrated and that circuit breakers balance financial sustainability with rewards for advancing the mission.
- Ensure a holistic review of executive compensation beyond just market competitiveness, including consideration of pay equity, mission alignment, performance, and talent strategy.

Conclusion

In the current environment, compensation committees must remain diligent in their oversight and governance. Take a broad view as your organization navigates the nuances

of developing a competitive compensation program. Doing so can help compensation committees be confident that their approach will meet organizational objectives in a fiscally prudent manner while supporting recruitment, retention, performance, and talent needs in challenging times.

TGI thanks Bruce Greenblatt, Managing Director and Executive Workforce Practice Leader, SullivanCotter, for contributing this article. He can be reached at brucegreenblatt@sullivancotter.com. For additional guidance on this topic, see SullivanCotter's [Top 10 Considerations for Executive Compensation and Governance](#).

Building an Olympic-Caliber Board

By Tracy Warner, CEO, *Board Business LLC*

There is something about elite athletes and the teams they play for that draws us in. Millions of people tune in to watch the NFL Super Bowl, the MLB World Series, hockey's Stanley Cup, the NBA Finals, Wimbledon tennis matches, or soccer's World Cup. From July 26 to August 11, the attention will be on Paris, the location of the 2024 Olympics, where hundreds of international athletes, as individuals and on teams, will compete for the highest place on the podium.

We admire Olympic athletes for their relentless dedication, rigorous training, and cohesive teamwork, all meticulously orchestrated in pursuit of a gold medal. This level of commitment highlights the profound impact of preparation and constructive collaboration on achieving success. In contrast, many hospital boards fall short in investing time to understand each other's skills and decision-making styles. This lack of thorough team building can lead to fragmented governance and less-than-desirable outcomes, underscoring the importance of collaboration and preparedness in any high-stakes environment—whether an international event or a hospital boardroom.

Just as athletes prepare to achieve Olympic glory, hospital boards must also cultivate a culture of rigorous preparation and teamwork to excel in their governance roles. The disparity between the dedication seen in sports teams and the often-fragmented approach of hospital boards highlights a crucial area for improvement. To bridge this gap and achieve a high level of performance, boards can adopt several key strategies. By intentionally focusing on a few specific strategies, hospital boards can build an Olympic-caliber team capable of delivering exceptional outcomes.

Key Strategies of High-Performing Teams

Sports teams scout for players who possess specific skills and attributes that align with their strategic goals to build a well-rounded and high-performing roster. This targeted recruitment is critical to building a team capable of executing their game plan and achieving success. Similarly, hospital boards must identify and recruit members with the diverse expertise and competencies necessary to fulfill their strategic vision. By aligning board member selection with the organization's long-term goals, hospital boards can ensure they have the right mix of skills to navigate complex challenges and drive effective governance.

Once the "dream team" has been assembled, it takes ongoing commitment by all members to foster a cohesive and functional environment to enhance the board's

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collaborative abilities and elevate its performance, much like an Olympic team aiming to take the podium's highest level. This is where most boards fall short. Each member brings a specific set of skills and unique experience. Many may have previously served on boards and have professed their knowledge of good governance practices. It's vital, however, that members of the board get to know each other and understand how their lived experiences impact decision making in pursuit of governance excellence. These interactions serve to build trust, which is crucial in creating a cohesive and functional team environment. Teams that trust each other and know each other's strengths and weaknesses and respond accordingly with a balanced lineup increase their chances of success.

How Well Do You Know Your Board Colleagues?

Ideas for engagement:

- Schedule unstructured agenda-free time, share a meal after a board meeting, or travel to a conference together. Rather than being viewed as frivolous, time spent getting to know fellow board members builds collegiality and trust. The more familiar board members are with each other, the higher the likelihood of open and honest dialogue and better decision making.
- Spend a few minutes at the beginning of board meetings with an exercise designed to "break the ice." Not only will this time ensure everyone is fully present for the meeting, but it's also another way to become more familiar with board colleagues. Although board members may claim to know each other, especially in small communities, asking questions that provide insightful responses deepens these familiar relationships by going beyond superficial knowledge.

Regardless of the achievement, whether in the boardroom or on the court, celebrating a team win recognizes and reinforces the collective effort and dedication that led to success. It boosts morale, fosters a sense of accomplishment, and strengthens team cohesion, motivating members to strive for continued excellence. Acknowledging achievements also cultivates a positive and supportive environment, essential for sustaining long-term performance. Likewise, on the other end of the spectrum, the best teams use the "Monday morning quarterback" exercise to review performance and seek opportunities for improvement. Rather than watching game films, it's important for boards to regularly assess their performance and create a game plan to address shortcomings that are hindering the best outcomes.

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Key Board Takeaways

Strategies for building an Olympic-caliber board include:

- Develop the “dream team” by identifying and recruiting board members with the diverse expertise and competencies necessary to fulfill the organization’s strategic vision.
- Take time to foster a culture where board members know and trust one another.
- Celebrate achievements by the board and recognize the effort and dedication that led to the success.
- Regularly assess the board’s performance and create a game plan to address shortcomings.
- Have a robust succession plan for board leadership positions.

Just as sports teams must prepare for the eventuality of retiring or injured athletes by developing and integrating new talent, hospital boards need robust succession planning to ensure continuity and stability. Effective succession planning ensures that critical roles are filled with competent individuals who are ready to step up, maintaining the board’s effectiveness and strategic direction despite any transitions.

Utilizing these strategies to develop a cohesive and functional team environment, boards can elevate their collaborative abilities and improve performance to achieve gold medal status.

Additional Resources

- [Board Recruitment](#) (Intentional Governance Guide)
- [“Expanding Board Criteria Beyond Competencies to Enable More Holistic Recruitment”](#) (*BoardRoom Press* Article)
- [Board Culture](#) (Intentional Governance Guide)
- [Human Understanding in Healthcare Organizations: A Board and Senior Leadership Framework](#) (Strategy Toolkit)
- [Planning for Future Board Leadership](#) (Elements of Governance)
- [Board Self-Assessment: A Core Responsibility](#) (Elements of Governance)
- [“Supporting Governance Effectiveness with Board Self-Assessments”](#) (Hospital Focus Article)

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