

# Composing a High-Functioning Board: Hard-Nosed Trends for a Complex Future

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I recently co-authored a report with colleagues from Alvarez & Marsal on the best governance practices of 17 high-performing non-profit hospital systems, with support from The Governance Institute.<sup>1</sup> In that report, which updates a survey we first conducted in 2015, we determined that non-profit hospitals and systems have struggled in recent years to find the right size and composition for their governing boards.

The number of hospitals and revenues in our surveyed systems has grown since 2015—from 241 hospitals in 2015 to over 375 hospitals in 2024, and from \$77 billion in revenues to \$155 billion. At the same time, most of the surveyed systems have sought to streamline their governing boards. In the process, a majority of the systems have worked to move from “holding company” or “constituency-based” boards to operating boards. The 17 surveyed systems were asked to categorize their structure and that of their boards. Nine systems elected to characterize themselves as “a fully integrated, multi-faceted health system,” while the other eight described themselves as “a hospital system with other components.”

As one survey participant put it: “We have about 250+ subsidiary companies and over 50 percent of our revenue is earned outside of hospitals. As a consequence, we have had to develop a governance structure that reflects the complex functioning of the health system and at the same time balance fiduciary oversight with agility in decision making and execution of strategy.”

The stakes for non-profit hospital governing boards have never been greater. Non-profit hospitals and systems face heightened scrutiny today from the IRS, Congressional committees, the Department of Justice, the FTC, and state Attorneys General. Our survey showed that many successful non-profit systems have adopted more of a hard-nosed, no-nonsense and business-like approach to recruiting effective directors. This approach differs from the way directors were typically recruited in the past by boards, which focused on interpersonal relationships, community leadership, and fundraising ability, as well as on substantive skills and experience.

As successful non-profit hospitals and systems have streamlined their boards, they have also been increasingly

## »»» KEY BOARD TAKEAWAYS

- Building and sustaining a proactive and interactive board culture directly impacts effective governance.
- Best practices include assessing the expertise, skills, availability, and capabilities of existing board members and identifying gaps in needed expertise.
- Try to limit the number of *ex-officio* directors who may feel they are beholden to a particular constituency rather than to the success of the hospital or system and the health of the community.
- Resist selecting new board members just because you are friends or know them through social contacts—consider specific gaps in skills, leadership, and diversity before identifying individuals.
- Have committee chairs identify missing skillsets or areas in which you might have too much of a good thing.
- Best practices in recruiting board members should include the following:
  - » Build in a coherent transition and succession process so future directors are identified and groomed for leadership.
  - » Appoint a governance and/or nominating committee to identify, interview, and nominate board members.
  - » Think about using professional recruiters.
  - » Consider compensating board members.

concerned about having the right mix of board members. As CommonSpirit Health CEO Wright Lassiter III said in commenting on our new survey, “Having well-intentioned board members is not the same as having a high-functioning board, and the wrong governance can be an anchor to a system.” Our 2024 survey respondents identified a number of steps being taken by many high-performing systems to make sure their hospitals and systems have the “right governance.”

### Board Recruitment and Composition Best Practices

Best practices we identified in our survey start with assessing the expertise, skills, availability, and capabilities of existing board members and identifying gaps in needed expertise. In recruiting board members, high-performing hospitals and systems build in a coherent transition and succession process so future directors are identified and groomed for leadership. They also appoint a governance and/or nominating committee to identify, interview, and nominate board members. Some systems now routinely use professional recruiters and are beginning to explore the benefits of compensating board members.

One of our surveyed systems determined that their most effective board members were missing board and committee meetings due to their



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—Wright Lassiter III, CEO,  
CommonSpirit Health

many other responsibilities. However, they also learned that these individuals virtually never skipped the board meetings of business corporations where they were compensated. Attendance improved significantly when the system instituted relatively minor stipends for board members (with additional compensation for board officers and committee chairs).

One way to meet the challenge of achieving a well-balanced board is to limit the number of *ex-officio* or “constituency-based” board members. Several of the systems surveyed included *ex-officio* or “legacy” board members due to merger agreements combining two organizations, because of the need for representation from “sponsor” organizations in faith-based systems, or attributable to relationships between the systems and medical schools or universities. Too many of these board members, however well-intentioned, can slow decision making and distract board

1 Larry Gage, et al., *Governance of High-Performing Non-Profit Hospital Systems: Survey of Key Characteristics and Best Practices*, Alston & Bird LLP and Alvarez & Marsal, December 2024. The report may be obtained by emailing [larry.gage@alston.com](mailto:larry.gage@alston.com) or [mfinucane@alvarezandmarsal.com](mailto:mfinucane@alvarezandmarsal.com).

members with discussion of constituency matters that are not especially relevant to the success of the entire system.

Selecting new directors based on personal friendships is also rapidly going out of style. The networks of the past may make for a relaxed, friendly culture, but may also be a very limited way to ensure that boards are filling the right gaps in needed skills and expertise. One alternative is to look to committee chairs for guidance around what gaps they need to fill before identifying or recruiting new directors. Their answers may surprise you. The audit committee chair of one hospital system board in our survey told his chairman, "I have enough financial expertise on the committee. I need someone who is an expert in enterprise risk management."

Quite simply, the range of skills considered desirable for effective governance has expanded in recent years to include a number of new areas of expertise, such as enterprise risk management, cybersecurity, artificial intelligence, digital health, telehealth, and population health. Increasingly, the systems we surveyed

are also turning to national experts to augment the skills and experience of local or regional board members.

At the same time, it is important to acknowledge that not every desirable quality will come from a specialized skill. Diversity is also important. High-performing health systems strive to have boards that reflect the demographics of the populations they serve. Boards are looking for diversity in their composition and consider gender, age, race, and ethnicity in combination with competency when recruiting new members to their boards and committees.

Finally, other intangible factors can also be important to take into account, like institutional leadership skills. One system CEO told us that he placed a large premium on identifying individuals, regardless of their specific background, who had previously occupied the elusive nexus between management and governance in a complex organization. In other words, he planned to search for future board members who had already successfully navigated and effectively managed the relationship

between dynamic corporate leadership and a highly effective governing board.

In sum, the successful systems we surveyed discovered that building and sustaining a proactive and interactive board culture directly impacts effective governance. Four board practices can have a significant impact on shaping board culture:

- Identifying the right mix of people for effective governance
- Finding innovative ways to identify, recruit, appoint, and retain them
- Setting board and committee objectives and routinely evaluating board and member performance against those objectives
- Establishing effective ongoing board education and development programs

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*TGI thanks Larry S. Gage, Senior Counsel, Alston & Bird, LLP, and Senior Advisor, Alvarez & Marsal, for contributing this article. He can be reached at [larry.gage@alston.com](mailto:larry.gage@alston.com).*