



What Does It Take to Build a Strong Nonprofit Health Care Board?

REPRINT OF *INQUIRY* ARTICLE
SPRING 2007

Many of the reforms being required or recommended to ensure that for-profit companies achieve greater transparency and more effective governance are similarly being promoted for adoption by nonprofit health care organizations. The demands are coming from a variety of sources—government officials, donors, business partners, companies that provide directors and officers (D&O) liability insurance, the media, and directors themselves.

To meet these demands, nonprofit health care boards and executives need to assess whether they have the right number, mix, and caliber of board members, and to modify their recruitment and/or retention strategies where they don't.

The following discussion is another in an ongoing *Inquiry* series called "Dialogue," a collaboration with the Alliance for Advancing Nonprofit Health Care to provide a variety of voices on current, major issues in the nonprofit health care sector.

The panelists for this discussion, held on Oct. 16, 2006, were: **Tony Armada**, president and CEO of the Henry Ford Hospital and Health Network, headquartered in Detroit, Mich.; **Howard Berman**, former CEO of the Lifetime Healthcare Companies, Inc., based in Rochester, N.Y.; **John Hopkins**, president and CEO of the Rocky

Mountain Health Plans, headquartered in Grand Junction, Colo.; **Bill Kreykes**, board chair of Trinity Health, based in Novi, Mich.; and **Don Wegmiller**, senior consultant and advisor at Clark Consulting—Healthcare Group, based in Minneapolis, Minn. **Bruce McPherson**, president and CEO of the Alliance for Advancing Nonprofit Health Care, based in Washington, D.C., moderated the discussion.

Bruce McPherson: *Are you seeing, or do you foresee, changes in the composition of nonprofit health care boards, and if so, in what ways?*

Bill Kreykes: Trinity Health has a relatively small system board, 13 individuals, with hospitals operating in seven states. We have strived to bring onto the board expertise in selected areas to add skill sets that we felt were needed for an effective system board. For example, we recently did a national search for an outstanding individual for his/her clinical expertise, and we also recruited an expert in finance from a large, multi-unit organization.

Needed skill sets change over time. We have completed our third generation of strategic planning and are assessing whether there are other skills needed over the next several years to provide solid board direction for implementation of our updated strategic plan.

In the boards of our individual hospital operating units—which we call our ministry boards—we are looking for diversity: individuals who reflect the general nature of the local community from ethnic and other standpoints. We have worked closely with these boards over the past six years to make this happen.

John Hopkins: My organization is a nonprofit regional health plan that started in western Colorado and has expanded throughout the state. We also have some Medicare patients in Wyoming.

We have a very stable, 11-member board, with community representation and a variety of different skill sets, such as finance, business operations, and clinical care. We rotate members, but generally over long periods of time. This is because it takes a fair amount of time to learn the

complexities of our business, such as insurance cycles, and board members have expertise that can be hard to replace in areas like general business operations, banking, finance, clinical care, and so forth. We have board members who have been with us through both good and difficult financial times, and thus understand how we must protect the organization and our members through these cycles.

The change in board composition that we're seeking now is better geographic representation. Historically, the board has been comprised of individuals primarily from our home area, Grand Junction, and the Western Slope of the Rockies. We now have two individuals from other parts of the state, and additional geographic diversification is planned.

Tony Armada: Henry Ford's board is comprised of individuals representing various aspects of the community we serve in southeast Michigan. They are all volunteers, without compensation. One major change that we have made is to significantly reduce the size of our system board, from about 42 to 20 members, with emphasis on certain skill sets, similar to what Trinity Health has done. We simultaneously created a new board for the Detroit hospital and ambulatory care network in southeast Michigan because of the breadth and complexity of those operations. We have also created greater advisory resources for each of our local business units to help them with their quality and efficiency performance.

As part of the change process, we had individual meetings with board members to better understand their passions and the areas where they could make the greatest contributions in relation to the organization's needs.

Kreykes: Building on both John's and Tony's points, with a relatively small board emphasizing skill sets as well as ethnic diversity, committees take on added import. Recruitment of nonboard members to those committees can be very important to their effective functioning. We have several committees, perhaps best exemplified in our investment committee, where nonboard member experts have played crucial roles.

Don Wegmiller: You all represent some of the premier health care organizations in the country. In contrast, my consulting firm comes in contact with about 200 health care

boards a year, and we don't see much change occurring in their composition. It is still largely a "friends and family" type of board membership. The types of gap analysis your organizations perform, assessing what types of board members are needed and missing, is unfortunately a rare event in our experience. I'm not talking here so much about system boards because by and large they have progressed a good deal; they better understand the scope and scale of the organizations they are governing. What I'm particularly concerned about is the other 50 percent, where the boards are governing organizations that are not part of systems.

Kreykes: Even with systems, I think that many of the boards are "representational," meaning that they are made up of representatives of the boards of the individual hospitals. Rather than thinking "system," the individual board members think about the individual hospital they represent. It is very difficult to have a strong system board when there is a representational, rather than skill mix, composition.

Howard Berman: What Don and Bill are saying, I believe, is that governance is the Achilles heel, and I agree. Change in governance performance has been remarkably slow. What change has occurred has been mainly at the system level when new entities are created, so that they are not tied down to the traditional board member recruitment and replacement approach. I think that the lack of assertive governance is causing some of the public scrutiny we have been seeing from the Senate Finance Committee and others on issues like executive compensation and charity care policies.

I don't see us suffering so much from a lack of skills. My former organization had enough money to hire investment advisors, lawyers, accountants, and so forth. The real problem is board members not coming to the table with knowledge of the business, requiring us to spend a lot of time, energy, and resources trying to teach them the business. Do for-profit companies go out and recruit people who don't know their business and consider them good board members? To me the obvious answer is "no," yet we do that all the time.

Secondly, we need people who understand that robust debate and dialogue in the board meeting, which is vital to protecting the organization, is not disloyalty. For too long,

health care boards have been populated with individuals anxious to get along by going along.

Kreykes: This is all about changing the culture of the organization, and the culture of the board. I agree that if you bring individuals onto the board who have an understanding of health care, they can be more effective from the get-go. At Trinity, we also assign a current board member as a mentor to each new board member, whether he or she has health care experience or not. Each individual goes through a very extensive orientation and educational process over a period of time, and has a mentor to help clarify any questions, concerns, and uncertainties that the new board member might have.

Armada: We have a similar model at Henry Ford. Our initial board orientation is a full day, with education about health care delivery and financing, our individual operating units, continuum of care, patient safety, quality, and so forth.

Wegmiller: All of the things being talked about here—health care experience, skill sets, diversity, independent thinkers, board mentors, strong board orientation, gap analysis and sophisticated recruiting, even using recruiting firms to go out and find the talent—are best practices. Unfortunately, they are all too rare practices.

McPherson: *When a board has one or more industry experts, or individuals with particular types of technical expertise, is there a risk that they will dominate discussions?*

Kreykes: If the individual is one-dimensional—an expert in quality or whatever—and doesn't add much to the rest of the board process, that could become problematic. When we are recruiting someone with particular expertise, we are seeking additional contributions that the individual can make: exercising general intelligence and common sense in discussions on any topic, and stimulating discussion among all of the other board members on topics related to his or her area of expertise, rather than supplying the answers.

Wegmiller: You are looking for a well-rounded board member. Good boards assess the individual's prior board

experience. Has this person served on a significant board, public or private, nonprofit or for-profit, and how has this person performed? Through recruiting firms or directly, good boards make reference checks. I get calls all the time from people who say, "I understand you served on a board with Tom. We're considering him for our board. Can you tell me what kind of a board member Tom was? Did he try to dominate?"

Hopkins: We have a board that is fairly balanced, with some people grounded in certain aspects of the business, such as accounting. Others are generally bright and knowledgeable. They may sit back listening to the discussion, but then ask very thoughtful, probing questions, drilling down to the essence of the matter. This is extremely helpful to the board's interactions.

In addition, as board members work together over time, they develop confidence in one another and seek out each other's opinions, regardless of the topic.

Armada: Also, in agenda planning for board meetings, you can identify if there are any potential risks of domination by experts on specific topics, and develop strategies to balance out the dialogue.

McPherson: *We have touched a bit on the process for recruiting and selecting good board members. What additional thoughts do you have on this?*

Kreykes: The recruiting and selection process is critical. Trinity Health has progressed to the point where we go through a formal search process for board members, getting multiple potential candidates to interview, just as if we were recruiting for a CEO. In the course of the interview process, we discuss the nature of the board and organization, the board processes, the composition of the board, the committee structure, and so on; this gets the individuals excited about the organization before they even attend their first board meeting. I think that process makes a big difference in getting good board members who come to the table engaged and functioning a lot faster.

Armada: Nancy Schlichting, CEO of our health system, is very passionate about succession planning. She and the board have created a process whereby we identify and reach out to various types of leaders throughout the community on an ongoing basis to learn if their passions and interests match what we have to offer and need in terms of board or committee membership. A side benefit is introducing them to and promoting the organization. In a targeted way, we can observe and groom individuals involved in committee work to become future operating unit board members or even system board members.

Kreykes: We have individuals on committees who might become board members at some point, but we have not explicitly recruited them for the purpose of migrating them to the board. There is some ongoing debate as to whether that is a good practice because expectations may or may not be created in their minds, which may or may not be fulfilled. So far, we appear to have been successful in getting some outstanding experts in areas like human resources and finance for committee work just because they are enamored with the organization and want to make a contribution to the field.

Wegmiller: As with gap analysis, which I mentioned earlier, board succession planning and formal recruiting practices for directors are not the norm, unfortunately. Succession planning is a superb process. It forces the board to examine itself and "what it wants to be when it grows up." Even setting aside the results it can achieve, the process is worthwhile for all boards. But I only know of possibly three boards that are actually doing it.

Berman: With the exception of one, the boards I have been exposed to just have a nominating committee that scrambles around when it realizes an annual meeting is coming up in a few months with X number of vacancies to fill.

The exception is an organization that views board member succession planning and recruitment as a year-round process. It always has a pool of first-round choices, so whether in the course of normal turnover or unforeseen events, it knows where to reach out. And it uses the recruitment process as a way of further introducing and showcasing the organization to the community.

McPherson: *Do you think compensation of board members can play an important role in recruiting quality board members, and in getting the most out of them?*

Berman: My experience has been that once you begin to compensate board members, you change the social contract between a board member and the organization—for the better. When board members are purely volunteers, their hearts are in the right place, but there are always time contentions between what they are going to do for that organization and other activities. Sometimes the organization wins and sometimes it doesn't, but there is always the perspective, "I'm a volunteer, so I can do as I wish." Once individuals take the organization's money, they're now obligated to it—to give back value. This forces the board member to make a greater commitment to his or her governance accountability. Every board member that I have talked to tells me, "No, no, no, it doesn't affect me at all." Yet I've seen changes in every board member once he or she gets compensated.

Kreykes: I'm not really in disagreement, but I'm also not sure that board member compensation changes the social engagement all that much. Trinity compensates board members at the system level, with more paid to the board chair and committee chairs. The fact that we compensate helps to bring people to the table in the search process, I believe, especially when we recruit nationally. But I would be very surprised if any board members would leave the table if we ceased compensating them. Our compensation is not enough that anybody's lifestyle is going to change as a result of it. Rather, it is intended as an explicit recognition of their time commitments and contributions to the organization.

The nature of the organization is a critical factor. Trinity is a national company with operations on the East and the West Coasts. I'm not sure that board compensation is effective or necessary for a community hospital, where there may be intrinsically greater passion and commitment on the part of board members to do an effective job of governance for that community. Trinity does not compensate board members at the ministry level. When Trinity decided to

compensate board members at the system level, it did not receive any groundswell of requests from the ministries to do the same.

Wegmiller: According to the governance surveys we do, the numbers of hospitals compensating board members are slowly but surely creeping up. I strongly share Howard's philosophy. I think compensation will help to both recruit good board members and strengthen accountabilities. I have no scientific proof, but it is very interesting to me that organizations touted as successful are in large part ones that compensate their boards. This is not to say there aren't successful organizations that don't compensate their board members.

We also see from our governance surveys that there are increasing numbers, although still fairly small, of organizations with a board development budget and a staff member supporting the board. A few are also moving toward expected or required board education, annually or at least biannually. An open question, of course, is whether the educational experiences are good ones.

It is amazing that there hasn't been more cause-and-effect research regarding well-functioning boards. It is still very minimal, but it is at least moving in the right direction.

Armada: Because of our localness, traditional charitable role, and strong pool of talent, Henry Ford has not found it necessary at this point to compensate our board members, at either the system or business unit level.

Hopkins: Rocky Mountain pays board members a nominal amount per meeting, but also offers a health insurance benefit to all board members who want it. We want board members to have firsthand experience with the health plan. Some board members take the coverage and some don't, and some board members contribute their compensation to our foundation. We also cover travel expenses for those residing outside the Western Slope.

Interestingly, in talking to people about joining the board, I have never been asked about compensation.

McPherson: *What are some key non-compensation techniques for attracting and retaining good board members?*

Kreykes: One thing that continues to excite the Trinity Health directors is the application of the “80-20 rule”—80 percent discussion and only 20 percent reporting. We use a consent agenda very effectively. We do not rehash at the board meeting matters that have gone through committee, except in unusual circumstances, such as approval for the construction of a new hospital. The 80-20 rule causes the board members to be really engaged, not just passively absorbing information provided by others.

We also invest a lot of time and energy in evaluations of the board and board chair. We have formal evaluations every two or three years, with more informal survey assessments in the interim. We just engaged an outside firm to conduct a thorough survey to measure satisfaction with the processes, the chairs, the dynamics, and the culture. This goes a long way to ensuring a very engaged, healthy board.

Wegmiller: To amplify something touched on earlier, a good board will always find it easier to recruit than a mediocre board. You can show that your board is conscientious by providing concrete examples of your good governance practices—board succession planning, committee charters, setting and evaluating executive compensation, the 80-20 rule, board orientation and continuing education, and so forth. I think that is the most effective nonmonetary strategy.

McPherson: *Based on the forgoing discussion, do you see the quality of nonprofit health care boards improving or not moving forward?*

Kreykes: I think the quality of the Trinity board is the best that I have ever experienced in my career in health care—in terms of composition, processes, culture, collegiality, trust, respect, rapport, and results. Maybe it all derives from Trinity being a new entity, created out of the merger of the Holy Cross and Mercy systems, with a lot of forethought about establishing a new culture and approach to governance. We always conclude Trinity board meetings with a “checkout.”

Everybody around the room does a quick self-evaluation of the meeting. It is most unusual if that checkout doesn’t entail expressions of appreciation for the contributions that members feel they are making to the organization.

Hopkins: The quality of the board is increasing for us as well, as we extend into new geographic areas in the state. We are able to tap into individuals with backgrounds and experiences we might not have had available locally, such as a health care lawyer and a former senior executive at a large health plan. In fact, our newest board member was the former commissioner of insurance in Colorado.

Armada: The more boards improve their selection processes, the better they articulate the roles of management and governance, and the better they create structures that match people’s interests and passions, the greater will be the interest of quality individuals to serve on those boards.

Berman: I agree, although there are a few organizations with such positive reputations or dominant standards that they may be able to successfully recruit quality individuals on that basis alone. I recall when Lou Holtz was at Notre Dame; he said that he didn’t have to recruit, just select. People clamoring to be on boards is not by definition good or bad. They may be clamoring to get on those boards to improve their own resume or improve their own social standing, not because they want to do the hard work of governance. Those boards and institutions have to be very careful about defining their needs and the culture that they want to maintain.

But going back to John’s earlier point, quality can be improved by recruiting out of a bigger pool geographically. Obviously, all HMO experts don’t live on the Western Slope of Colorado. That’s a point that shouldn’t be lost on any of us.

Kreykes: A case in point: the vast majority of our board members are not from the states we operate in. Relatedly, there is a tremendous cadre of talent of executives, physicians, and other health care professionals who have reached retirement age or soon will, who are still energetic with excellent expertise. More and more organizations should be looking at that talent pool for their boards.

Wegmiller: Tony said it well. The better boards become, the easier it will be to recruit good board members. Nobody wants to join a board that is unappealing, even though the reason, given out of politeness, is typically, “I’m just too busy.” But many boards have a long way to go to become better.

McPherson: *If many boards have a long way to go, what is getting in the way?*

Wegmiller: I don’t think there is a shortage of qualified people available to boards. They just are not typically serving on boards at the present time. Many boards themselves aren’t really interested in change; they’re comfortable. And management makes them comfortable. There is little thinking of bringing in board talent from outside the community.

For example, I was at a health care governance conference recently where half the audience—both board chairs and CEOs—was outraged by the suggestion that individuals should decide to either do business with the organization or serve on the board, but not both, for obvious conflict-of-interest reasons.

Armada: I agree with Don. The problem is not a shortage of quality board members. In some ways, unfortunately, hospitals are still a cottage industry, with the smaller and independent ones often not recognizing that they have any governance problems.

McPherson: *Then what needs to happen to turn things around?*

Wegmiller: The most rapid way of improving boards is to change from the inside, with CEOs leading the way. I recognize that’s easy for me to say because I’m not a CEO today, but I would say it even if I were.

There are other catalysts for change, unfortunately, coming at us from the outside—rating agencies starting to look at governance structure and processes, state attorneys general, D&O insurers, legislators like Sen. Chuck Grassley (R-Iowa). But the best way to effect change is to have CEOs strongly advocating all of these processes that we have talked about here.

Berman: I agree. The root of the failure lies in the CEOs who haven’t come to recognize that strong boards are really their best allies.

Armada: Right. The CEO needs to see the value of an effective board and take the lead, while partnering with the board chair and others to make it happen.

Kreykes: While I don’t think that the CEO has to necessarily be the change agent in all cases, clearly the CEO has to have a high level of trust as well as self-confidence to be able to effectively relate to a strong board.

To be the catalyst for change, CEOs need good examples of how stronger boards are actually to their benefit, not their detriment. Role models can be very helpful and need to be articulated. Educating students on effective governance practices can help, but that’s a long-term process.

Wegmiller: Absolutely. We need more case studies, and role models speaking at conferences on how governance has improved and how the CEO encouraged, and supported and benefited from, the change.

Publication of the proceedings of this discussion sponsored by the Alliance and *Inquiry* is a good example of the steps that need to be taken.

Hopkins: Right. Just in this conversation, I personally am coming away with some ideas that I think are going to be helpful to Rocky Mountain. Hearing from others can generate ideas that can make our governance structure and processes even stronger.

ALLIANCE FOR
ADVANCING
NONPROFIT HEALTH CARE
WWW.NONPROFITHEALTHCARE.ORG



P.O. Box 41015, Washington, DC 20018