

CHAPTER 1

Introduction

Governance is important work. How well it is done has significant consequences for health care organizations, the communities they serve, and their patients, medical staffs, and employees.

Over the past twenty years, we have served on numerous boards, consulted with hundreds of boards, and written scores of books and articles about boards. We have a profound respect for the contributions they *can* make. Most boards truly want to make a difference and add value. The vast majority of board members are talented and committed individuals who devote incredible amounts of time and energy to governing. Yet performance of the typical health care organization board is far from optimal. The primary reason is that governance is often unfocused and idiosyncratic; it is not grounded on a coherent, precise, explicit “technology” and an associated set of principles that promote best practices and continuous improvement (see Box 1.1).

A *technology* is a set of principles for solving problems and seizing opportunities. Health care organization success depends on the quality of three of them:

- *Management technology*: Principles that help executives deploy an organization’s resources in ways that accomplish goals
- *Clinical technology*: Principles that help medical professionals promote health, prevent disease, and provide caring and curing services to patients

Box 1.1. Some Definitions

Technology

- A process for converting inputs to outputs
- A method for doing work
- A set of capacities that provide the means for achieving goals

Principle

- A basic truth; a fundamental law
 - A guideline or directive
 - A standard of effective behavior
 - An essential element of best practice
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- *Governance technology*: Principles that help boards effectively balance and represent the interests of stakeholders, to whom the organization “belongs”

Grounded on economics, sociology, and psychology, the discipline of management emerged after World War II. Taught in schools of business and conveyed in a vast literature, it incorporates a host of “subtechnologies” such as accounting and finance, strategy, marketing, operations design and management, human resources, and information systems.

Based on the biomedical model developed in the mid-1800s, modern clinical technology emerged in the early twentieth century; it has been refined and elaborated by a huge investment in basic and applied research over the past fifty years. The principles are taught in medical, nursing, and other health professional schools.

Managerial and clinical technologies are far more developed and sophisticated than the technology of governing. Yet a lot is known about boards and how they can more efficiently and effectively solve problems and seize opportunities in ways that enhance an organization’s success.

Here is an example from the commercial sector. CalPERS, the California Public Employees Retirement System, is one of the largest pension funds in the country. In 1995–1996, it asked three hundred companies in its equity portfolio to consider adopting formal governance principles. CalPERS staff issued report cards, and a set of model principles were formulated and distributed. (You can see the latest version at <http://www.calpers.org>.) A Wilshire Associates study of the “CalPERS effect” examined the performance of sixty-two companies over a ten-year period. The results indicated that whereas the stock of these companies trailed the Standard & Poor’s 500 Index by 89 percent during the five-year period before implementing CalPERS governance principles, they outperformed the S&P by 23 percent in the five years after adoption, contributing \$150 million in additional value to the retirement fund annually.

About half the nation’s largest commercial enterprises have adopted governance principles in some form (*Trustee Magazine*, July-Aug. 1998). Yet this is not common practice in health care organizations.

This book lays out a governance technology—a set of principles and associated practices based on a model of factors that most affect board performance and contributions. The principles are evidence-based, derived from our own consulting engagements, the governance literature, organization and management theory, and empirical research.

This book is written with a point-of-view and has an agenda. Because we believe that principle-based governance can dramatically enhance board performance and organizational success, our objective is to stimulate and facilitate the adoption of this approach in health care organizations. The book is targeted at board members and executives committed to improving governance practice (see Box 1.2). It is a book for serious people willing to make a significant investment in their board’s and organization’s future.

This is a practical, “how to” book; it provides

- A *model* of health care organization governance that serves as the framework for Chapters Three through Seven
- A set of seventy-two *governance principles* and associated practices for improving your board’s performance and contributions

Box 1.2. Uses of This Book

- As a comprehensive *overview* of health care organization governance for newly appointed board members
 - As a “best practice” *refresher* for experienced board members
 - As an *exemplar* of what a truly great board should look like
 - As a *blueprint* for transforming your board, designing and implementing specific principles and practices that will improve its performance and contributions
 - As a *template* and a set of specific *criteria* for assessing governance quality
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- *Getting-started recommendations* to help your board begin adopting the principles
- *Checkups* for assessing your board
- *Guidelines* for implementing principle-based governance

Charles Darwin observed that in challenging environments where resources are scarce, if an organism has even a tiny edge over others, this advantage is amplified over time. He noted, in *On the Origin of Species*, that a few grains of sand tip the balance, determining who thrives and who dies. Principle-based governance can tip a health care organization’s balance toward success.

This book promotes an explicit, comprehensive, and coherent set of principles that set out what health care organization governance should look like at its very best. An executive summary is presented in Box 1.3.

As you read this book, you may begin to feel overwhelmed by the multitude of things your board can, and should, do to improve its performance and contributions. Our recommendation is, Don’t be! Our approach to governance development can produce significant results when focused on implementing a *limited* set of principles; a “full court press,” though perhaps ideal, is not necessary. This is a map for an entire journey that your board

Box 1.3. Executive Summary: Principles of Health Care Governance

The great board . . .

- Appreciates the importance of governance and takes its work seriously
- Understands the factors that most affect governance quality and board performance
- Devotes the necessary time and effort to governing
- Governs on the basis of agreed-to and explicit principles

The great board meets its fiduciary obligations; it . . .

- Identifies and prioritizes key stakeholders and understands their interests and expectations
- Represents stakeholders and ensures that the organization's resources and capacities are deployed in ways that benefit them
- Meets its fiduciary duties of loyalty and care

The great board fulfills its responsibility for organizational ends (destination); it . . .

- Formulates a precise, detailed vision that defines what the organization should become, at its very best, in the future
- Specifies key organizational goals that must be accomplished for the vision to be fulfilled
- Ensures that management strategies are aligned with goals and the vision

The great board fulfills its responsibility for executive performance; it . . .

- Specifies that the CEO is its *only* direct report
- Plans for CEO succession
- Undertakes an effective recruitment and selection process when the position of CEO becomes vacant

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Box 1.3. Continued

- Specifies its expectations of the CEO
- Assesses the CEO's performance and provides him or her with feedback to improve it
- Adjusts the CEO's compensation based on an assessment of his or her performance
- Is prepared to terminate the CEO's employment, should the need arise

The great board fulfills its responsibility for quality; it ...

- Develops an explicit and precise working definition of quality
- Credentials members of the medical staff and makes decisions regarding appointment, reappointment, and delineation of privileges
- Ensures that necessary quality and utilization management systems are in place and function effectively
- Assesses the quality of care provided in and by the organization
- Reviews management plans for managing, and continuously improving, quality and patient or customer satisfaction

The great board fulfills its responsibility for finances; it ...

- Formulates key financial objectives
- Ensures that management-developed budgets lead to accomplishing financial objectives
- Assesses financial performance and outcomes
- Ensures that necessary financial controls are in place

The great board performs its core roles; it ...

- Formulates policies that convey its expectations and directives
- Makes decisions regarding matters requiring its attention and input
- Monitors and assesses key organizational processes and outcomes

The great board is structured appropriately; it . . .

- Is streamlined, having the fewest possible layers of governance, boards, and committees
- Is the right size, having between eleven and nineteen members unless there is a compelling reason for a smaller or larger number of members
- Explicitly specifies the authority, responsibilities, and roles of multiple boards, if the organization has more than one
- Has the right number and types of committees to support and facilitate its work
- Precisely specifies its authority vis-à-vis committees, ensuring that the board governs and that committees perform governance “staff work”
- Specifies the objectives, functions, and tasks of its committees and requires that they develop annual work plans
- Reviews the performance of and need for every committee each year
- Periodically assesses the governance structure and modifies it when necessary

The great board has the right composition; it . . .

- Proactively designs and manages its own composition
- Recruits and selects new members on the basis of explicit criteria
- Has an effective new-member orientation process
- Specifies member expectations
- Has fixed member term lengths and limits
- Assesses the performance and contributions of individual members
- Ensures that members do not represent narrow interests or constituencies
- Includes the CEO as a voting member of the board
- Ensures that ex officio and “inside” members hold no more than 25 percent of the board’s seats
- Periodically examines the assets and liabilities of compensating board members

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Box 1.3. Continued

The great board has the necessary infrastructure in place; it . . .

- Develops an annual governance budget
- Has adequate staff support
- Formulates annual governance objectives
- Employs a formal agenda planning and management process
- Ensures that board meetings are conducted in a way that maximizes their effectiveness, efficiency, and creativity
- Selects a chair that understands his or her role and is willing and able to perform it effectively
- Has a plan to continually develop board competencies and capacities
- Holds annual or semiannual retreats
- Undertakes periodic board self-assessment, employing the results to engage in action planning that improves governance quality

might want to take. Begin with the first steps, have modest initial goals, don't obsess on what's left to be done, celebrate wins, keep at it, and enjoy the trip!

Getting to Great is the product of what we have learned over the years from our fellow board members, clients, and consultant colleagues. They have been our teachers, and we are indebted to them.

We would be delighted to hear from you about your board's adventure of getting to great.

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