A Matter of Perspective

The best boards respect the line between governing and managing

By Karma H. Bass and Terri W. Cammarano

The chief executive of the hospital was frustrated. Despite working diligently with the chairman on board meeting agendas, developing relevant materials and getting board packets out in advance, she continued to be surprised by questions during the meetings: "What are you going to do about the cost overrun on the new parking lot construction?" "When do you anticipate having the new employee benefit plan in place?" "Why aren't patient rooms available sooner for admissions from the emergency room?" The CEO was beginning to dread these meetings.

Board members, meanwhile, were confused and concerned. They read the board packets in advance and showed up for meetings feeling prepared. During meetings, they listened to the presentations and tried to help formulate solutions to the problems identified. But the CEO and her executive team did not always welcome the assistance; in fact, they sometimes seemed to resent it. So why, the board members wondered, were issues being brought to the attention of the board if management did not want their feedback?

The retired lawyer on the board noticed that the CEO sometimes got defensive when trustees asked questions, which made him wonder if she had something to hide. When he mentioned this to the retired banker on the board, the banker agreed and noted that the hospital's recent financial performance did not seem to be meeting expectations but the CEO kept assuring them that it was just a timing issue. Board members wanted more information and the CEO didn't seem prepared to provide it at the meetings; instead, she wanted to take their questions offline or get back to them at the next meeting.

The chairman felt stuck. He provided feedback on meeting agendas the CEO sent him each month. He attempted to answer members' questions when they called him to express concern. But his information about what was happening at the hospital was limited, too. He met with the CEO once or twice each month between board meetings, and he had been on the board long enough to understand how complex these issues could be. But he wasn't close enough to the hospital's operations to answer all the questions his fellow board members were asking. He was pretty sure they had a good CEO who was performing well, but he was beginning to feel like a referee. The CEO and the board members all wanted what was best for the hospital and had agreed on the organization's strategic goals. So, why did it seem as though board meetings regularly devolved into a back-and-forth exchange that left everyone unsatisfied?

Another Kind of Leadership

This scenario plays out far too often in boardrooms across the country. Well-meaning, skilled trustees want to make a difference and find their efforts misconstrued as micromanaging. Hardworking CEOs feel that the board won't let them run the hospital as they were hired to do. It's been said that all conflict arises from violated expectations. When the board and the executive team are not clear about the scope of their respective governance and management roles, someone is bound to be disappointed.

It's easy to see how there could be confusion: governance and management have much in common. Both require leadership, vision and an ability to analyze information for the purpose of making decisions. Both require an understanding of process and a focus on accomplishing goals using available resources. The confusion between governance and management is exacerbated by the fact that many board members have expertise in management and don't realize they need to deploy different skills to be effective on the board.

What Is Good Governance?

The practice of effective governance is not intuitive and requires an oversight perspective: eyes on, hands off (or, in the words of a Pennsylvania hospital board chairman, "Our board follows the N-I-F-O rule: nose in, fingers out.").

Good governance requires letting management run the show. Most directors are familiar with the basic board member fiduciary duties of care, loyalty and obedience. The duty of care means asking questions and requiring the level of information that a reasonable person might require before making major decisions. The duty of obedience requires attentiveness to the organization's mission when setting organizational goals and strategies. The duty of loyalty requires fidelity in the decision-making process; that is, looking out for the best interests of the organization and its charitable mission. All three duties require transparency, such as full disclosure of conflicts of interest. They do not require a knowledge of everything that transpires at the organization.

As a practical matter, the board's legally mandated fiduciary duties are carried out through oversight: policy formulation, decision-making based on policy, holding management accountable for following policy and producing intended results. This means the board is responsible for high-level policy and decision-making, rather than hands-on supervision. To act effectively, directors must be able to generally trust that management is appropriately implementing directives and avoid managing how they are executed.

Highly effective trustees often have a well-honed, almost instinctual sense of where to focus, how to approach issues and when to push management for better results. They act as a foil to management: holding up the mirror and letting management know when organizational efforts are diverging from the agreed-upon path and desired results. The board's role is to help bring out the best in an organization's leadership by challenging, supporting and requiring clarity.

Staying at 30,000 Feet

Effective board members must maintain a dogged focus on the long-term ability of the organization to further its mission. In the same way that one's eyes cannot simultaneously focus on near and far fields of vision, the board that focuses on the day-to-day details of an organization fails in its primary purpose. When the board strays into the details of implementation and operation, the organization is potentially exposed. It's as if the captain of the ship has left the helm to help the crew stoke the boilers.

Additionally, management suffers when the board fails to govern. Effective CEOs rely on board meetings to refocus leadership's attention on the big picture and they encourage trustees to validate — or disprove — that the organization is heading in the right direction. According to one CEO, "The board meeting is the place I go each month to think about long-term implications and big-picture issues. Having a group of people who are absolutely committed to the organization's success but not invested in any one piece of the day-to-day operations is tremendously helpful to me, personally and professionally."

The board's job, at its core, is not to do things, but to require that activities advancing the organization's goals get done. This is harder than it seems. Board members have a strong sense of wanting to serve and, to most, this means doing things. Many are highly accomplished managers of their own businesses and they are eager to deploy those skills on behalf of the hospital or system. Yet, to be effective as a board, trustees must show restraint. The best board members rely on management to do what is necessary and appropriate to further the organization's goals.

Trust but Verify

Boards hold management accountable for implementing strategy and matching the organization's resources to its mission. This doesn't mean they act as backseat drivers or police. From a legal perspective, trustees are entitled to rely on management as experts and on the CEO as the key executive holding other managers accountable. It is not a breach of fiduciary duties to trust what the CEO says when there is no indication that it is not true.

Oversight requires observation over time and asking thoughtful questions along the way. The goal is to hold management accountable for achieving the organization's mission, but give management the opportunity to figure out the best way to do so. Rather than questioning each decision or action, effective boards watch for patterns and adherence to policies and organizational principles. This may feel a bit like reading the tea leaves, but it frees up the board to stay focused on the big picture and long-term objectives. Along the way, the board can and should ask for reports and data to verify that goals are being achieved.

Boards often struggle with being asked to make decisions in the face of incomplete information. A board's fiduciary duty of care requires that the board ask questions and be thoughtful before making significant decisions about the organization and its resources. But the questions should focus on why, and for what purpose. Boards let management own the issue of how. They then require that management report back on the end result.

Clarifying Roles

So, how should the board and CEO described at the beginning of this article work through feeling stymied? The first step is acknowledging the issue. Taking time to discuss roles and expectations can provide the clarity for each side to understand how their actions are contributing to the misunderstandings. A board retreat with agenda time focused on this can assist in this process. Open dialogue helps CEOs to appreciate the sense of responsibility trustees feel to the community for ensuring that resources are being appropriately deployed. It also can help board members to understand why questioning senior leaders about the details of operations is a distraction and undermines their effectiveness.

The best boards are explicit in their understanding of where the line between governance and management lies. They are not afraid to call the question and discuss with each other what governance and management are. As one seasoned board chair explains, "We regularly stop and ask ourselves, 'Are we pursuing this line of questioning because it's a critical strategic issue or are we just curious about something going on at the hospital?' " Idle curiosity does not have a place in the boardroom. Good inquiries seek clarification or meaningful information in the context of governance. Requests for information can be phrased to keep the discussion focused; for example, "I'm asking this because when we met last month, management described how recruiting new ob-gyns is essential to meeting our community's long-term needs." Such a statement will remind executives that the board is asking in light of the big picture and not micromanaging. This can prevent board meetings from feeling like "us vs. them."

Effective governance is a journey. The line between governance and management can be fluid over time, adjusting to the circumstances of the organization, the skills and experience of the management team, the attributes and experience of the board, and the level of confidence that the board has in its CEO. Periodically talking about the role of the board with management is an effective way to create the kind of transparency that builds trust. The board and the CEO may not always agree on where governance stops and management begins, but candid conversations about their respective views will foster respect and the opportunity to continue the journey as partners, rather than adversaries. **T**

Governing or Managing?

Boards are responsible for ensuring that an organization has established overarching objectives, goals and a mission, vision or purpose. Governance is the practice of setting policies, making decisions and ensuring that effective oversight is in place. In other words, if the issue is big, if the question is about the future or if the concern is core to the organization's mission, then you are in the realm of governance. Questions such as these are board-level questions:

- What is our philosophy of employee compensation and incentives?
- What health care resources will our community need in the next five to 10 years?
- What qualities do we value in business partners?
- Will acquiring the physician-owned ambulatory surgery center across the street further our strategic goal of physician alignment?

Management is responsible for proposing the organization's objectives and goals and providing the plans to accomplish them. Once they are approved, management implements the plans and reports progress to the board. Management is responsible for making decisions and deploying organizational resources within the parameters and policies established by the board. These questions can be asked and answered by management:

- How will we improve our clinical quality and patient satisfaction?
- What are the organization's proper staffing levels?
- What is the best marketing strategy to accomplish the organization's strategic objectives?
- How will we ensure financial stability? — *K.H.B. and T.W.C.*

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