Medical Group Board Governance

A Short-Guide for Healthcare Directors

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INTRODUCTION

Congratulations! You're a Director. Now what?

Whether you are a new Director or have been one for a while, this book is designed to help you be more effective.

Board governance is an important concept that results in stronger organizations. However, it is only effective when Boards – and their Directors – collectively understand what Board Governance is and how it should be executed.

Is Board Governance in Medical Groups Different?
Yes. Because Directors in Medical Groups are mainly 'related' – physicians elected by their peers - there are important Governance implications to deal with. However, THE CONCEPT OF BOARD GOVERNANCE DOES NOT CHANGE whether an organization is a Medical Group, a high profile Charity or a Public organization.

About Boardroom Metrics
Boardroom Metrics has worked with Boards of public, private and not-for-profit organizations in the US and Canada for over twenty years. Our mission is to help Boards maximize their effectiveness through education and execution of the Board's role.

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WHAT IS BOARD GOVERNANCE?

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BOARD GOVERNANCE IS OVERSIGHT

Risk, Strategy and CEO Performance

Board Governance is the oversight process that Boards of Directors use to ensure Management is running the organization successfully. There are only three elements of strong Governance oversight:

1. **Identifying risks to the Organization.** The four primary risk areas are: financial risk; legal risk; external market risk; and internal operating risk.

2. **Validating and approving strategic direction.** A strategic plan defines how the organization will mitigate important risks and successfully achieve its mission.

3. **CEO Performance Management.** The CEO's role is to implement the strategic direction approved by the Board. The Board's role is to measure the CEO's progress and hold them accountable for the organization's performance.

Executing the Board role successfully depends on:
1. Board composition – who is on the Board
2. Board leadership – how the Board is lead
3. Board information – what information the Board receives
4. Board processes – how the Board operates
5. Board culture – how the Board works together

Each is covered in more detail in Chapters later in this eBook.

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THE BENEFITS OF STRONG BOARD GOVERNANCE

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THE BENEFITS OF STRONG BOARD GOVERNANCE

Sustainability and Success

The benefits of strong Board governance are:

1. **Sustainability of the Medical Group.** By proactively identifying critical risks, Directors help to ensure that the Group's future is not in jeopardy. Failure to identify critical risks is the primary cause of most organization failures. Changes in market and operating conditions are the greatest challenge that all organizations face.

2. **Planning for the Future.** Long-term success does not happen by accident. It requires clarity around the organization's goals and plans for achieving them. By ensuring that the organization has a meaningful mission and a clear set of strategic priorities, Directors help to ensure that the organization stays focused on what is required to be successful.

3. **Accountability and Results.** Plans without accountability don't mean much. The CEO is responsible for the operating performance of the Medical Group. By directing the CEO and measuring the organization's performance, Directors help ensure that the plans they have approved achieve the results they expect.

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THE CHALLENGES OF STRONG BOARD GOVERNANCE

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THE CHALLENGES OF STRONG BOARD GOVERNANCE

Oversight, not operations.

Unfortunately (and perhaps surprisingly), Board Governance fails regularly (in all organizations, not just Medical Groups). The outcome of these failures range from total business losses to job cuts, fines and other legal actions. The most common challenges in Governance are:

1. **Focusing too much on operations and too little on oversight.** This is a key challenge for Medical Groups because most/all of the Board are Director-physicians who are part of the day-to-day Group operation.

2. **Focusing too much on financial risk and not enough on other risks.** Market risks (new competitors, technology, legislation) and operating risks (policies, procedures, people) are the primary cause of most Governance failures.

3. **Poor strategic planning and/or the failure to identify the risk implications of strategic direction.** Differentiating between operating direction and strategic direction is a challenge for many organizations. Also, some strategic direction (eg, cutting costs) creates risk and outcomes that Boards fail to anticipate (see Boeing).

4. **Poor or no processes for evaluating the Board and the CEO.** Boards are getting much better at this. However, Boards that self-evaluate tend to over-rate their governance effectiveness and limit their opportunities for improvement.

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THE BOARD GOVERNANCE PROCESS

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THE BOARD GOVERNANCE PROCESS

Executing Strong Governance

The role of the Board is to identify risk, approve strategy and performance manage the CEO.

The five elements of strong Board Governance execution are:

A.   Board Composition – who is on the Board
B.   Board Leadership – how the Board is lead
C.   Board Information – what information the Board receives
D.   Board Processes – how the Board operates
E.   Board Culture – how the Board works together

This Chapter explains each of these elements in more detail.

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THE BOARD GOVERNANCE PROCESS

A. BOARD COMPOSITION

To be most effective, the Directors on a Governance Board should:

1. Have skills and expertise that reflect the risks the Medical Group is facing and the strategies it is executing

2. Be objective about the organization and the CEO.

Skill and Expertise
Here's an example of the importance of skills and expertise in Board Governance.

Today, cyber-risk is one of the greatest threats that all organizations face. To ensure they are prepared to properly counter this threat, Boards are increasingly seeking Directors with cyber-risk experience. This not only assists the Board, it provides assurance to stakeholders that the Board is taking its oversight responsibilities seriously. However, it may be difficult to find someone within the Medical Group with a cyber-risk background.

Director Objectivity
Boards are less effective when the outcome of a Board decision affects them personally. For example, it's potentially very difficult to eliminate an unprofitable service when one or some of the Directors come from that service area. This is a challenge for most Medical Groups because so many Directors come from the operation.

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Overcoming Board Composition Challenges in Medical Groups

Adding objective outside perspective and expertise is one of the greatest challenges that many Medical Groups face. Roadblocks to change include:

- Government legislation that prescribes Board composition
- Medical Group Charters and Policies that mandate all-physician and physician-lead Boards
- Historical precedents that have not changed for many years
- Resistance from Directors fearful of losing their role on the Board

These are some of the options we recommend for overcoming this challenge:

Option #1 – Just Do It
Where these hurdles do not exist, we strongly recommend that Boards assess their skill gaps and attract new, outside Directors to the Board.

Option #2 – Change the Rules
Where there are rules impeding the addition of outside Directors, we strongly recommend the Board consider changing them. Although changing the rules may take time, the benefits are worth it.

Option #3 – Advisors not Directors
Where it is impossible to add outside Directors, we recommend that Boards attract objective outside experts to attend Board meetings and otherwise act as advisors, mentors and coaches to the Board.

Lack of outside perspective on Medical Group Boards is a serious challenge that impacts Governance effectiveness.

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THE BOARD GOVERNANCE PROCESS

B. BOARD LEADERSHIP

Boards are most effective when they are lead by an experienced Board Chair. The ideal Chair:

- Has lead a Board before
- Understands the role of the Board and Governance process
- Has time available for the role, other Directors, stakeholders
- Is approachable, well organized and priority driven

Many Medical Group Board Chairs lack Chair experience. As a result, they are learning on the job. Here are some recommendations for maximizing the effectiveness of Medical Group Board Leadership.

1. Eliminate one year terms for Board Chairs. There isn't a Chair anywhere who believes they did their best job in their first year.

2. Surround the new Chair with other Board leadership experience including the past Chair.

3. Provide leadership education for the Chair. Key learning for Board Chairs includes Governance training; process training like Chairing Board meetings; working with the CEO; evaluating Board effectiveness; strategic planning; and, communicating with shareholders and members.

Board effectiveness depends on strong leadership. Taking steps to ensure new leaders understand the Board Chair role is important.

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THE BOARD GOVERNANCE PROCESS

C. BOARD INFORMATION

The information a Board receives is critical to the decisions it makes.

Board information should help the Board understand the three elements of its role: risk, strategy and CEO performance.

Information on Risk
Although Boards commonly receive financial and legal updates it is unusual for many Boards to receive regular updates on market and operating risks. Market risk information includes updates on competitors, government regulations, technology and other innovation. Operating risk information includes information on whistle-blower incidents, employee engagement, quality assessments and the status of certifications.

Information on Strategy
Boards should consistently be reminded of their organization's mission and the strategies they have approved for achieving the mission. They should receive regular updates on the status of strategic initiatives and any changes that impact strategic direction or the chances of success.

Information on Organization and CEO Performance
The CEO's role is to implement the strategic plan approved by the Board. Information the Board receives should help them understand information on results and progress against strategic initiatives. Conducting a formal CEO review annually is a formal process step that provides information and feedback on CEO performance.

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THE BOARD GOVERNANCE PROCESS

D. BOARD PROCESSES

These five processes help the Board execute its role effectively:

1. **Board Meeting Process.** Board meetings are the primary process by which the Board executes its role. An effective Board meeting only lasts a couple of hours. Success depends on a well- structured agenda and strong Chair leadership. Every Board meeting agenda should include time to discuss risk, strategy and CEO performance. Appendix 2 provides a sample Governance Board agenda.

2. **Board Evaluation Process.** Boards should evaluate their effectiveness at least once every two years. Key factors the Board should evaluate include Director understanding of the Board's role and the elements of execution including Board composition, information, leadership, processes and culture. Note, that although Board self-evaluations are common, most Boards over-rate their governance effectiveness.

3. **CEO Evaluation Process.** CEO's are employees too! Performance of the CEO should be evaluated annually. The CEO evaluation should be part of an overall CEO performance management process that includes annual goal setting, performance improvement initiatives, and achievement success versus annual performance goals.

4. **Strategic Planning Process.** Boards are responsible for initiating the strategic planning process in an organization; validating and approving the strategic plan; and, overseeing its execution.

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5. Board Processes (cont'd)

4.   Strategic Planning Process (cont'd)

Depending on the Board, it is often up to the management team (not the Board) to develop the strategic plan recommendation. Typically the planning process begins months in advance of the start of the next fiscal year.

5.   **Board and CEO Succession.** It is the Board's responsibility to prepare for planned and unplanned turnover at the Board and CEO levels. In both cases, the Board should have a clear set of criteria that define the characteristics of the candidates it plans to attract. Succession is an on-going process that should continue even when there isn't a current succession vacancy.

THE BOARD GOVERNANCE PROCESS

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E. BOARD CULTURE

To be effective, Directors must be able to work together and respect each other even though their ideas and perspectives are different.

The following culture elements get in the way of Board effectiveness:

1. **Fear.** There are several sources of fear on a Board:
    a) Fear of looking stupid. This is common, particularly for new Directors. It is up to the Board Chair and other Directors to ensure that all perspectives are encouraged and acknowledged.

    b) Fear of the CEO. When a CEO is successful with years of experience there can be a tendency to defer to the CEO on a wide range of topics. Again, it is up to the Board Chair to keep the CEO from exerting undue influence on the Board.

2. **Communication** – use of acronyms. Every organization has its own set of commonly used acronyms. For insiders and experienced Directors, acronyms are not an issue. However, if there are new Board members or people form outside the organization, the use of acronyms is a common barrier that impedes communications and understanding.

3. **Respect** – tardiness, sexism, intolerance. Professionalism is an important element of respect. Being insensitive to actions that impact others gets in the way of Governance effectiveness.

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MEASURING BOARD EFFECTIVENESS

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MEASURING BOARD EFFECTIVENESS

THE BOARD EVALUATION

At least once every two years the Board should conduct a formal evaluation to assess its Board Effectiveness. The two primary methods for conducting the Board evaluation are:

1. Self-Assessment. The Board assesses itself using an assessment tool(s) it purchases from a supplier or downloads from the internet. Self-assessments are common, especially for Boards of smaller organizations and/or Boards undertaking the Assessment process for the first time. Generally, the assessment is administered as a survey that Directors complete and the results are compiled by someone on the Board (Board Chair or Committee, example Governance Committee).

2. Externally-lead Evaluation. Externally lead evaluations are similar to self-assessments but are lead by outside Governance experts.

Learning on Board Evaluations
1. Boards that evaluate themselves tend to over-rate their Governance effectiveness. There are some practical reasons for this. First, it's natural for Directors to be supportive of their Board. Second, most Directors aren't governance experts. Boards that self-evaluate can be like patients who self-diagnose. The outcome isn't always accurate.

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Measuring Board Effectiveness (cont'd)

Learning on Board Evaluations (cont'd)

2. The problem with over-rating Governance effectiveness is loss of incentive to keep improving. Often the scores on a Board self-assessment leave very little room for improvement or indication of where improvement should occur.

3. It is more important to evaluate overall Governance effectiveness than to evaluate individual Directors. Boards seldom fail due to the quality of their Directors. They fail because they don't understand and execute their role properly.

4. Confidentiality is the key to accurate assessment data. Directors who fear their feedback isn't confidential are more likely to over-rate the Board. This is a common fear and a key reason for using an outside party to administer the assessment.

5. The most common outcome of most Board evaluations is (unfortunately) not very much. This occurs when the opportunities for improvement aren't clear and the Board fails to make a plan based on the results for action.

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CONCLUSION

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CONCLUSION

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OVERSIGHT, NOT OPERATIONS

Regardless of whether you are on the Board of your Medical Group or a local Charity, the role of a Governance Boards is oversight, not operations (there are Boards that make operating decisions, they're called operating Boards).

Board Governance includes oversight of risk, strategy and performance management of the CEO. Governance Boards are accountable to the entire organization, not specific communities within the Group.

Medical Group Boards often struggle with oversight because so many Directors come from inside the operation. For these Directors, operating issues are top of mind and co-workers/stakeholders expect Directors to deal with them. However, dealing with operating issues is not the Board's role – and learning how to explain this to co-workers and other stakeholders is important.

The provision of medical services is changing immensely. Having a Board that anticipates change, plans strategically and oversees execution is vital to ensuring the long terms sustainability and success of the Medical Group.

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APPENDIX

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APPENDIX 1

EXAMPLE BOARD SKILLS MATRIX

	BOARD LEADERSHIP	PRIMARY CARE	STRATEGIC PLANNING	INFORMATION TECHNOLOGY
Director A	✓	✗	✓	✗
Director B	✗	✓	✗	✗
Director C	✗	✓	✓	✗
Director D	✗	✗	✗	✗

This is an example Board skills matrix. The horizontal axis lists the important skills and expertise the Board is seeking.

Current and potential Directors are listed on the vertical axis.

This example shows that no one on the Board has information technology expertise. Also, it shows that Director D does not possess any of the skills or expertise the Board is currently seeking.

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APPENDIX 2

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EXAMPLE BOARD MEETING AGENDA

Call to order
Approval of the agenda
Approval of minutes from the previous board meeting
Chair's report (summary report on overall governance status of the organization)
 Risks
 Strategies
 • Risk mitigation
 • Execution of mission
 CEO performance
Committee Reports and discussion of direction for approval (as required)
 • Progress on priorities since previous meeting
Staff reports and discussion of direction for approval (as required)
 CEO report
 • Execution of the strategic and annual operating plan
  • Performance vs goals
  • Risks and opportunities
  • Impact on plans and goals
 Other Management as necessary
  • To answer questions about execution of an element of the strategic or operating plan (for example, the financials)
  • To educate on a particular risk or strategy
  • To support the CEO in presenting an initiative requiring Board approval
Other Business
 • Topics requiring Board input/direction/follow-up
  • Example: governance 'fire' item; Board scheduling
 • Comments and announcements
  • Example: timing of a speech to the Legislature
Adjournment

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APPENDIX 3

EXAMPLE BOARD EVALUATION

Q1 What is your position with [_____] [_____]

Page 2: Role of the Board

Q2 I have a clear understanding of the role of the [_____] Foundation Board.

Strongly Agree,
The role of the [_____] Board is::
Governance

Q3 I have a clear understanding of my role as a Director of the [____] Foundation Board.

Respondent skipped this question

Q4 I have a clear understanding of the strategic priorities of the [____] Foundation.

Strongly Agree,
The strategic priorities of the [____] Foundation are::
Boost participation in the world of work Unleash the power of technology Drive achievement and equality Foster and engaged workplace

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Q5 I have a clear understanding of the risks facing the [_____] Foundation.

Strongly Agree,
The risks that the [____] Foundation is facing are::
Many Risks are categorized into type Governance, reputational, financial, cyber, health and safety, succession

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Q6 I have a clear understanding of the CEO's performance.

Strongly Agree,
Please identify the CEO's achievements in executing the latest strategic plan of the [____] Foundation.:
[_____]

Page 3: Board Effectiveness - Board Composition

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ABOUT BOARDROOM METRICS

Boardroom Metrics was founded over twenty years ago to focus on Boards and Corporate Governance effectiveness. Organizations call Boardroom Metrics when they need help with:

1) **Board Evaluations.** We use customized surveys, interviews and other assessment tools to evaluate how effectively public, private and not-for-profit Boards of Directors understand and execute their Board role.

2) **CEO Evaluations.** We use customized surveys, interviews and other assessment tools to evaluate the CEO's performance versus the Board's expectations, business objectives and personal development goals.

3) **Board and CEO Succession Planning.** We provide tools and consulting to help Boards develop criteria and processes for planned and unplanned succession.

4) **Governance Education, Consulting and Coaching.** We speak to/work with Boards, Associations, and other groups on Corporate Governance, the Board's role, and the processes and tools for executing Corporate Governance effectively.

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ABOUT THE AUTHOR

Jim Crocker is the Chair of Boardroom Metrics. An accomplished Director, CEO and Consultant, Jim works with Boards of Directors of Public, Private and Not-for-Profit organizations in the US and Canada. His mantra - 'risk, strategy and performance management of the CEO' - helps keep Boards focused on Governance and out of trouble.

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