



Nonprofit healthcare boards: A mandate for change

Many boards of US nonprofit healthcare systems have held onto governance policies that most corporate boards abandoned long ago. Now, they are in urgent need of change if they are to continue to serve their communities effectively.

Nonprofit healthcare systems provide medical care to millions of Americans every day. Many of these organizations have been centers of research and innovation as well as providers of community-based care. In recent years, both the for-profit and the nonprofit sides of the United States' healthcare sector have been addressing challenges such as demands for more digital and personalized care, widespread consolidation, and significant shifts in government insurance programs. Responding to these issues has led many healthcare systems to institute sweeping changes to their business models, including clinical, operational, and financial practices. COVID-19 significantly accelerated many such changes by exposing both management and board-level leadership weaknesses at many organizations—including nonprofit healthcare systems. Indeed, while some of the most progressive health systems have begun to modernize their board structures and processes, many more have not.

The time is now for these boards to embrace needed transformation. Adding to the urgency for change are the community-related mandates facing all nonprofit health systems. Given the increased pressure for racial and social equality across the country, almost every board has an immediate need to be more representative of the communities it serves. Reassessing their purpose, composition, and culture will help nonprofit healthcare system boards ensure their organizations can continue to serve their communities as effectively in the future as they have in the past.¹

¹ For more on why these three factors are crucial to the performance of boards of all kinds, see Alice Breeden, David Hui, and Anne Lim O'Brien, *Future-Proofing Your Board*, Heidrick & Struggles, May 29, 2020, heidrick.com.

Refocus on purpose

Traditionally, nonprofit healthcare boards have been community-focused philanthropies. The healthcare systems did a great deal of good for their communities by providing necessary healthcare services, and board directors saw their purpose as financially supporting the delivery of those services, thereby giving back to their communities.

However, today's demands make that definition of purpose insufficient. Just as most corporate leaders have moved from a sole focus on shareholders to a broader focus including stakeholders, nonprofit healthcare system directors must broaden their definitions of purpose as well. The fundamental purpose of the organization—providing healthcare to a given community—may be easier to define for these organizations than for many others, but the question of what the board can and should do in support of that purpose has become far more complicated than just raising money. Boards should not only discuss this among themselves but also seek input from senior management and, especially, from patient communities. Those that do will be better able to hone their sense of purpose and ensure it is precisely fit for their particular geography and population.

For example, many nonprofit health systems have shifted their focus from high-volume specialty care to providing integrated, value-based care in a consumer-friendly manner. This has created the need for new perspectives and different skill sets, including at the board level. We have also seen boards step back and make concerted efforts to clearly define and differentiate their role from that of other stakeholder groups. Some boards have used purpose workshops to build more unity, alignment, and clarity of purpose. One, for example, had focused on increasing diversity among its members, but couldn't articulate why that was important. Through a workshop, the board determined that it needed to help diverse board candidates better understand how their contributions could directly impact the mission and vision of the organization and how their voices would have a lasting impact on their community.

Once directors have agreed on how they can best meet their purpose in today's world, boards will benefit from assessing their current processes against some primary responsibilities:

- **Leading CEO selection, assessment, and succession:** Historically, CEO recruitment and assessment often rested on soft skills, such as the CEO's personality and relationship with the board. Today, the most progressive healthcare system boards evaluate CEOs' performance using comprehensive dashboards with performance-based metrics tied to the organization's strategy. Additionally, boards should ensure their CEO succession planning is a proactive and strategic board-led initiative that outlines emergency and short-term plans as well as long-term internal leadership development initiatives. Making the change to drive these processes with best practices and proven metrics will help boards ensure that their organizations attract, retain, and develop the best leaders.
- **Determining strategy:** Too often, nonprofit healthcare boards have not delved into strategy beyond generalized support for healthcare provision and, sometimes, research. Boards can make a stronger impact on strategy when they undertake a more focused reflection of the overall business landscape, the needs of the community, and how directors' experiences can help shape healthcare delivery for that community. Additionally, hosting ongoing healthcare and governance education sessions, providing more frequent engagement opportunities with executives, and regularly assessing performance against strategy (practices most corporate boards follow) should lead to stronger board and organizational performance.
- **Maintaining an optimal culture:** Nonprofit healthcare organizations have long relied on their strong social purpose to build a productive culture. However, as more and more organizations focus on social good—and as diversity and inclusion become more important to organizations of all kinds—that is no longer enough. Boards that harness the power of diverse perspectives and experiences, collaborate with the CEO and the executive management team to define the mission and strategy, and align the organization around shared purpose and objectives will more often build a culture that supports organizational performance and retention of talent.

It's important to note that, as with any organization, board members' interactions with management should be conducted with the CEO's knowledge and with respect for the distinct roles of the CEO and the board. That said, many boards are also finding that redefining those roles is part of supporting the organization—for example, having a board member with digital expertise connect directly with the senior technology leaders.

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Construct a board that reflects purpose and community

Given the focus on supporting the community, directors at nonprofit healthcare organizations have very often been selected from local elites; candidates have generally come from the same professional and social circles, most with similar backgrounds and experiences. The primary selection criterion was fundraising expertise rather than a connection to, and knowledge of, those who would be served by the institution, or knowledge of the healthcare industry. In most cases, this has meant that these boards have been homogeneously white, and lifetime appointments have been common. In short, board composition and recruiting practices have run counter to what are now the accepted best practices in corporate governance and to community expectations.

While many boards of nonprofit healthcare systems continue to be populated by representatives from the local community, the industry is in the midst of a shift toward boards comprised of executives with specific skill sets who can guide their organizations toward more progressive and contemporary approaches to consumer- and data-driven healthcare delivery. While there is no blanket prescription for determining the skills and experiences needed on every nonprofit healthcare board, the old approach is clearly insufficient. Most importantly, a lack of diverse perspectives on these boards has meant there is little understanding of the services required and the challenges faced by those in underserved areas. For example, access to reliable transportation, healthy food, and safe shelter are basics that many people take for granted but are daily challenges for many living in vulnerable communities. Therefore, healthcare boards could benefit from directors who have experiences and points of view relative to these issues. Similarly, this lack of diverse viewpoints has also meant that these boards aren't necessarily up to date on other relevant issues, such as their understanding of technological changes or management best practices.

Once boards have identified what they should be doing to support their organizations' missions, board leaders will almost certainly need to undertake a more strategic recruiting approach to fill gaps on the board with, for example, representatives of diverse communities or people with specific skills and experiences, such as consumer experience, digital marketing, population health strategies, and predictive analytics. Adding such expertise will help the board make better-informed decisions and will provide more informed guidance to the management team. With most board meetings currently being conducted virtually, boards can be flexible around where directors live. Many nonprofit healthcare system boards will likely continue to seek directors with strong ties to the local community, but even when in-person meetings are once again possible, boards may well be more open to prospective board members living elsewhere who have skill sets and expertise that address gaps on the board.

Despite this shift in recruiting, fundraising expertise remains important on many of these boards. In fact, in most communities, the competition for philanthropic support has intensified. Healthcare institutions continue to need board members who understand philanthropy and can provide support, guidance, expertise, and access to relationships and networks. But here, too, expectations are changing. Younger philanthropists, for example, are demanding more tangible proof of impact and more data to ensure their support is making a difference. Board members attuned to this next generation of donors will be powerful assets for their institutions.

Finally, whether with newly recruited or veteran board members, compensation is more often emerging as a consideration. Nonprofit healthcare board positions have traditionally been solely volunteer, viewed as a way to give back to the community. But, in an effort to attract board candidates with specific skill sets, some nonprofit health systems now compensate board members. While this remains a topic of intense debate, some of these boards have used compensation to their advantage by recruiting board members with specific skills, perspectives, and professional networks who were previously unattainable.

One healthcare system's approach

Deborah Cannon, a current board member and former chair of the board of Memorial Hermann Health System, in Texas, recently explained how the board has thought about board composition and recruiting:

"We believe that it is important to constantly bring in new viewpoints and ideas, and to balance that with maintaining institutional knowledge. We do this in a variety of ways. First, directors must rotate off after serving three three-year terms, [and] they must stay off the board for a minimum of three years before being eligible to come back. As a result, we generally bring on new board members most years.

"In order to have a constant source of new talent, most of our more than a dozen committees and subsidiary boards are populated with a majority of non-board members, who bring a diverse set of skills and backgrounds. We believe it is important to have a board and committees made up of a diversity of talent—from a racial, gender, and age standpoint but also from a skill set standpoint. By serving on committees, we are able to observe potential board members and judge those who are good fits, from a skills standpoint and from an interest and commitment level. This has enabled us to provide for smooth transitions when rotating off term-limited board members and bringing on new members.

"We have also been very fortunate in retaining the institutional knowledge of retiring directors by maintaining them on committees."

Modernize the board culture

Even the best-laid board plans can be upended by a culture that, whether subtly or overtly, undermines the board's goals and the organization's strategy. On a nonprofit healthcare board that has, until quite recently, been homogenous, comprised of friends, and not accustomed to change, culture is very often a barrier to successfully integrating new directors from different backgrounds. We have learned that in high-performing boards, culture should shift with strategy in order to accelerate the execution of that strategy. Furthermore, the heart of culture change at the board level can quickly be influenced by the proper selection of board members who represent the future strategy of the organization and its constituents.

The traditional etiquette on these boards has been to sit quietly, listen, and learn for a couple of years—which is now a couple of years too many. New directors sought for specific skills must be able to contribute value immediately. To help ease the transition for new directors, board leaders can implement a standardized, thorough orientation process, which may particularly help directors unfamiliar with the unique considerations of nonprofit healthcare organizations. The board chair can help by making personal introductions to other board members—and perhaps pairing new trustees with mentors who can provide guidance and feedback—to ensure that new board members are integrated successfully. Formal, external programs may also be useful, especially for first-time directors who may need to learn the basics of corporate governance.

Board chairs also set the overall tone in the boardroom and, as they rebuild boards, will have to focus on creating an environment in which all board members have the opportunity to participate in discussions. Chairs should also set the expectation that quick consensus is not the primary objective; rather, the primary objective is gaining an understanding of diverse points of view and constructive conflict to reach better decisions.

Veteran directors may require some coaching in creating an inclusive meeting dynamic with greater diversity in their ranks. To help in this regard, boards will benefit from introducing regular performance reviews to assess not only the board's effectiveness but also the contributions of individual directors.

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Making these changes will likely prove challenging for nonprofit healthcare system boards, but they can no longer afford to settle for being anything less than the most effective board they can be—one that reflects the needs of their communities and will prove to be an ongoing asset.

Five questions for board leaders

- 1 Power:** Does the balance of power in the boardroom reflect the organization's key stakeholders and strategic needs, or are decisions unduly influenced by individual agendas or tradition-bound norms?
- 2 Priorities:** Is the board clear on its purpose—the work that only this group of people can do in support of the organization's purpose—as well as its near- and long-term priorities and how it will work with management to meet them?
- 3 Perspective:** Does the board have the right mix of diverse perspectives and expertise to guide the organization in both the short- and long-term?
- 4 People:** Is the board ensuring that the leadership pipeline is filled with the right mix of diverse talent to lead the organization into the future and that the organization's culture will help those people thrive?
- 5 Process:** Does the board comply with all expectations of patients, regulators, employees, and other stakeholders? Is there clarity on agenda setting, board succession, talent management, onboarding, and board transition?

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