World Class Governance

Leading Effective Boards
in Seventh-day Adventist Healthcare Institutions

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What are your biggest challenges in connection with governance of denominational institutions?

New (2018) GC Working Policy:

E 03 Employment of Personnel

In the employment of persons in every capacity, whether in an office environment, institution, or otherwise, great diligence shall be used to employ only persons who are members of the Seventh-day Adventist Church, in regular standing, in harmony with division working policy and consistent with national, state, or provincial laws; who exert a positive influence along spiritual lines for building up the work; and who adhere to Church standards and principles in all facets of their lives.

Those who manage religious organizations know that the secret of success is the shared vision of the workers. At a hospital, for example, anyone with adequate training can administer a sedative, lance a boil, or change a soiled bed linen. But for a church-sponsored hospital to achieve an extra dimension of patient care, there must be a vision of Christian servanthood and personal sacrifice; a vision shared by all—administrators, physical therapists, nurses, even food-service workers.

A vision like that can only grow and be nourished in the rich soil of much more widely shared convictions—convictions about what kind of God we serve, about the nature of humanity, about the kinds of behavior that shape a particular believing community. The bloom of altruism without the roots of belief will eventually fade and crumble. A religious mission requires shared vision. A shared vision requires common convictions.

—"Imposing Standards", *Christianity Today*, July 10, 1987, p. 17

Seminar Objectives:

1. To recognize the role of institutions in the SDA Church.
2. To understand and compare two governance systems in the SDA Church
3. To identify four key components to effective board meetings
4. To know how to ensure efficient meetings

Seminar outline:

Church and Institutional Relationships

SDA Governance Systems

Governance and Management

Effective Governance Strategies

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SDA Church-sponsored Institutions:

1. An expression of the Church in mission.
2. Separate legal personality—not structured as integral parts of the ecclesiastical organization.
3. Use of trademark "Adventist" or "Seventh-day Adventist" in harmony with Trademark Policy. (GCWP BA 40)
4. Must have a defined constituency—majority of whom are appointed by the sponsoring entity (union, division, etc.)
5. Constituency meeting at least once in five years.
6. Board members are Seventh-day Adventists. (Exceptions, if any, as per GC or Division Working Policy.)
7. Assets, upon dissolution, to SDA organization.

Institution Constituency:

1. Unless local regulations (i.e. University Charter) require otherwise the constituency shall be drawn from the sponsoring organization (i.e. union, division, GC) and all members shall be SDA members or SDA-affiliated entities.
2. Entrusted with ownership rights and obligations.
3. Maintains close relationship with sponsoring body.
4. Primary functions:
   - To review progress in alignment with SDA identity and mission
   - To appoint a board of trustees with authority to govern the institution
   - To adopt/amend governing documents of the entity

Institutions and the Local Church

1. The institution and the Local Church have separate identities.
2. The Local Church is an entity of the Mission/Conference.
3. Local Church pastor is an employee of the Conference.
4. Church building may be located on institutional campus.
5. Institutional and Local Church programs may create scheduling conflicts.
6. Institution administration and pastor must maintain frequent and mutually supportive communication for the institution and the Local Church to thrive.

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Effective Governance Strategies

Please meet:

Pastor I M Reddy, newly-elected President
What Next Union Conference.

Two SDA governance systems:

Ecclesiastical system

- "Executive Committee"
- Membership elects Exec Comm and officers
- Each entity part of a chain of organizations
- Many employees--voting members of exec comm
- Exec Com chair—internal
- 3 officers accountable to Exec Comm
- More involved in management
- Unincorporated status

Institutional system

- "Board of Trustees"
- Membership elects board, board appoints officers
- Each entity a 'stand-alone' organization
- Few employees—voting members of board
- Board chair—external
- CEO primarily accountable to board
- Less involved in management
- Incorporated status

The Bottom Line:

- Both systems can function effectively
- Effective functioning of the system requires:
  - Skilled leadership in group decision-making
  - Group members with diversity of competencies appropriate to the business
  - Intentionality about mission

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Structural pattern for SDA institutions

Constituency/Membership

Board of trustees

⎤ Governance

Chief Executive

Administration

⎤ Management

Departments/Services

⎤ Operations

Institution Board of Trustees

1. Not-for-profit organizations do not have shareholders or 'owners'. The constituency functions as 'owner'.
2. Board members usually referred to as 'trustees' rather than 'directors'. Trustees function on behalf of owner.
3. Responsible for institutional governance.
4. Duties include:

Governance responsibilities for Boards:

1. Set strategic direction based on mission
2. Maintain identity and continuity of organization
3. Establish key policies and strategies
4. Select, develop, and evaluate officers
5. Ensure adequate financial resources
6. Build/enhance organization's reputation
7. Provide adequate risk management
8. Assess performance against mission
9. Improve board performance

The Board of Trustees:

- Has ultimate corporate authority
- Total authority matched by total accountability
- Authority can be superseded only by the State or the Constituency
- Certain aspects of authority can be delegated to administration and/or Board committees
- The Board cannot delegate its accountability. It is ultimately responsible for the success or failure of the institution!

Board committees:

➢ Enhance effectiveness & efficiency of full board by aiding in fulfilling its responsibilities
  ➢ Break down complex issues/tasks
  ➢ Accomplish groundwork needed for board
  ➢ Ensure issues discussed thoroughly
  ➢ Allow members to substantively contribute

Board committees:

- The Board must determine:
  - Status—Ad hoc (temporary) or standing
  - Membership—Number of trustees (and invitees)
  - Quorum—Minimum # of members required
  - Authority—Terms of reference or committee charge
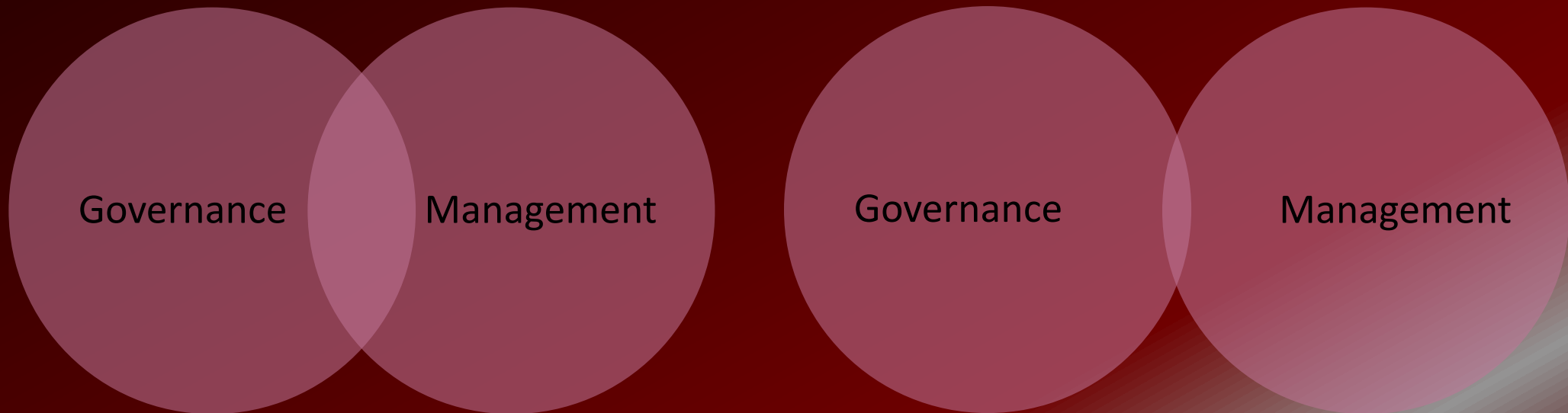
Governance vs Management

Governance

- Reflect interests of owner(s) in adopting strategic plan and policies
- "Doing the right things."
- Oversight of overall institution
- Clarify long-term vision of how to achieve mission
- Appoint/evaluate management personnel

Management

- Implement strategic plan and policies of governance
- "Doing things right."
- Day-to-day operations
- Initiate and co-ordinate activities to achieve mission
- Employ/evaluate staff personnel

Governance vs Management

➢ There is not always a sharp line distinguishing governance from management. Organizational size, complexity and stability of the business influence the relationship.

Governance   Management   Governance   Management

'Law of Gravity' in Governance

➢ Unless it is intentionally monitored and evaluated the governing body's preoccupation will drift from governance towards management.

➢The Board has authority when it is in session.

➢Between meetings the Board has no authority other than the decisions it has approved and documented.

➢Between meetings individual Board members do not have Board authority unless specific authority has been conveyed by Board action or Bylaws provision.

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Why Board processes matter:

1. <u>Organizational success</u> is ultimately the responsibility of the Board.
2. The <u>most important decisions</u> of the organization are made by a group.
3. <u>Effective group decisions</u> do not arise spontaneously. They require deliberate designs in structure and social dynamics.
4. Good governance <u>builds trust</u>.

The most important human resource in organizations is TRUST

The
Seven Signs
of Ethical
Collapse

How to Spot Moral Meltdowns in Companies...
Before It's Too Late

Marianne M. Jennings, J.D.

Seven signs of ethical collapse in organizations:

1. Pressure to maintain those numbers
2. Fear and silence (dissent not tolerated)
3. Bigger-than-life president/CEO, aspiring colleagues
4. Weak boards
5. Conflicts of interest not addressed
6. Success is all that matters
7. Goodness in some areas atones for evil in others

Top concerns expressed by Board members:

- "Rubber stamping" management recommendations.
- Lack of a written succession plan.
- Inattention to board's own performance.
- Difficulty in officer evaluations.
- Lack of formal trustee recruitment and orientation.
- Reluctance to replace poor-performing trustees.
- Reluctance to address conflicts of interest.
- Under-investment in board education.
- Too much time listening to reports.
- Too much information, too little long-range planning.

What goes wrong on boards:

1. Time consumed is not proportional to results.
2. Tendency to drift from strategy to operations, from long-term challenges to short-term performance.
3. Driving by the rearview mirror.
4. Reactive rather than proactive stance.
5. Deluge of data but failure to comprehend whole picture.

Common Board diseases:

1. Shakes and tremors (time consumed with unproductive activity)
2. Dialog deficit disorder (leads to irritable trustee syndrome)
3. Disorientation (making decisions without sufficient information)
4. Glassiopia (cloudy vision, shortsighted decisions)
5. Paralysis (inability to address most urgent matters)

Board meetings matter!

Governance performance—4 key elements:

1. <u>Competency</u> of directors/trustees
2. <u>Culture</u> of the boardroom
3. <u>Care</u> of fiduciary obligations
4. <u>Conduct</u> of essential functions

Competency of trustees:

➢ Refers to personal and professional skills of individuals on the Board.

➢ Refers to the collective range of professional skills represented on the Board when evaluated against the type of business conducted in the organization.

"We can't improve the quality of our prisons until we get a better class of inmates."

- --Ex-governor of Georgia

Trustee competency:

Personal

- Reputation (integrity)
- Time and commitment
- Objectivity in thinking
- Ability to function beyond 'self-interest'
- Team member or soloist
- Social behavior

Professional

- Training/education
- Experience
- Skill and judgment

Board competency grid—LLU Health

Church representation
AHC Administration
Health Care Admin
Clinical practice/tech
Education/Academics
Nursing
Research
Strategic Planning
Finance and Investments

Information Technology
Legal affairs
Human Resources
Community Reps.
Government Relations
Philanthropy
Population health
Diversity
    Cultural/Ethnic/Gender

The effect of Board size:

Group size

Engagement

Recruit Board memberswho:

➢ Provide necessary expertise
➢ Attend meetings regularly
➢ Do their homework, come prepared
➢ Disclose potential conflicts of interest
➢ Understand the organization/purpose
➢ Recognize/respond to warning signals
➢ Maintain confidentiality of 'inside' info
➢ Challenge assumptions and refrain from excessive deference to management

Governance performance—4 key elements:

1. Competency of directors/trustees
2. <u>Culture</u> of the boardroom

Strategy/Procedures/Programs/Policies

Organizational culture

Elements of Boardroom culture:

Attitude

- Commitment to excellence
- Enthusiasm about mission

Elements of Boardroom culture:

Attitude	• Commitment to excellence • Enthusiasm about mission
Attention	• Effective use of time • Focus on strategic issues

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Atmosphere
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- Good group dynamics

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Altitude
- Governance not management
- Big picture/future perspective

"...the highest-performing companies have extremely contentious boards that regard dissent as an obligation and that treat no subject as undiscussable."

—Sonnenfeld

The risk of 'groupthink':

➢ Deference to the view of the leader or influential spokesperson for an idea

➢ Uncritically supporting an idea because it appears to be popular

➢ Unwillingness to listen to dissent

➢ Unwillingness to express dissent in order to retain a favorable opinion of others

Governance performance—4 key elements:

1. <u>Competency</u> of directors/trustees
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Fiduciary obligations of directors/trustees:

Care

Loyalty

Obedience
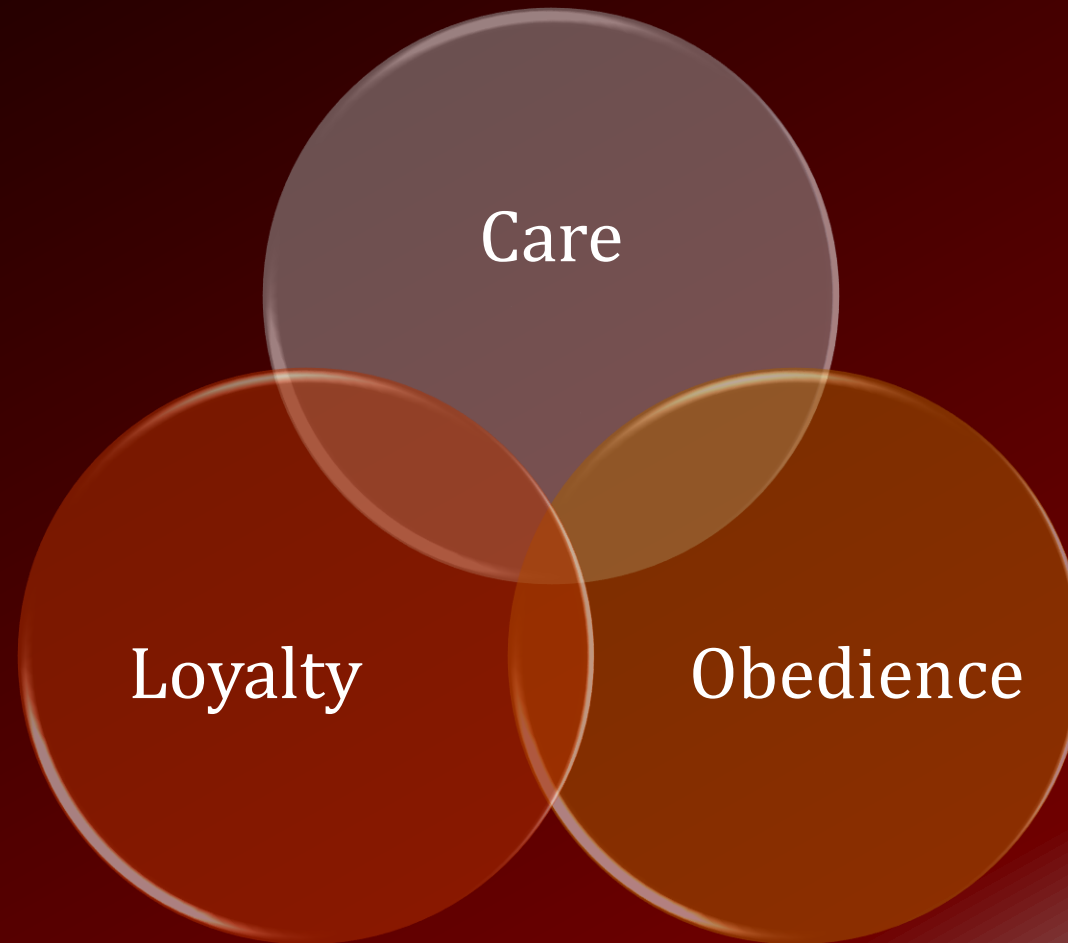
The duty of care:

What does it mean:
The manner in which the board makes decisions and oversees the institution.

What to look for:
Board education and orientation for new trustees
Trustees attend meetings regularly
Trustees receive background material ahead of time
Decisions reflect best interest of the organization
Timely presentation of materials
Access to experts and opinions

The duty of loyalty:

What does it mean:
Faithfulness to the organization and its mission

What to look for:
Position not used for personal advantage
Conflict of interest awareness and disclosures
Undivided allegiance when making decisions
Maintaining confidentiality of privileged info

The duty of obedience:

What does it mean:

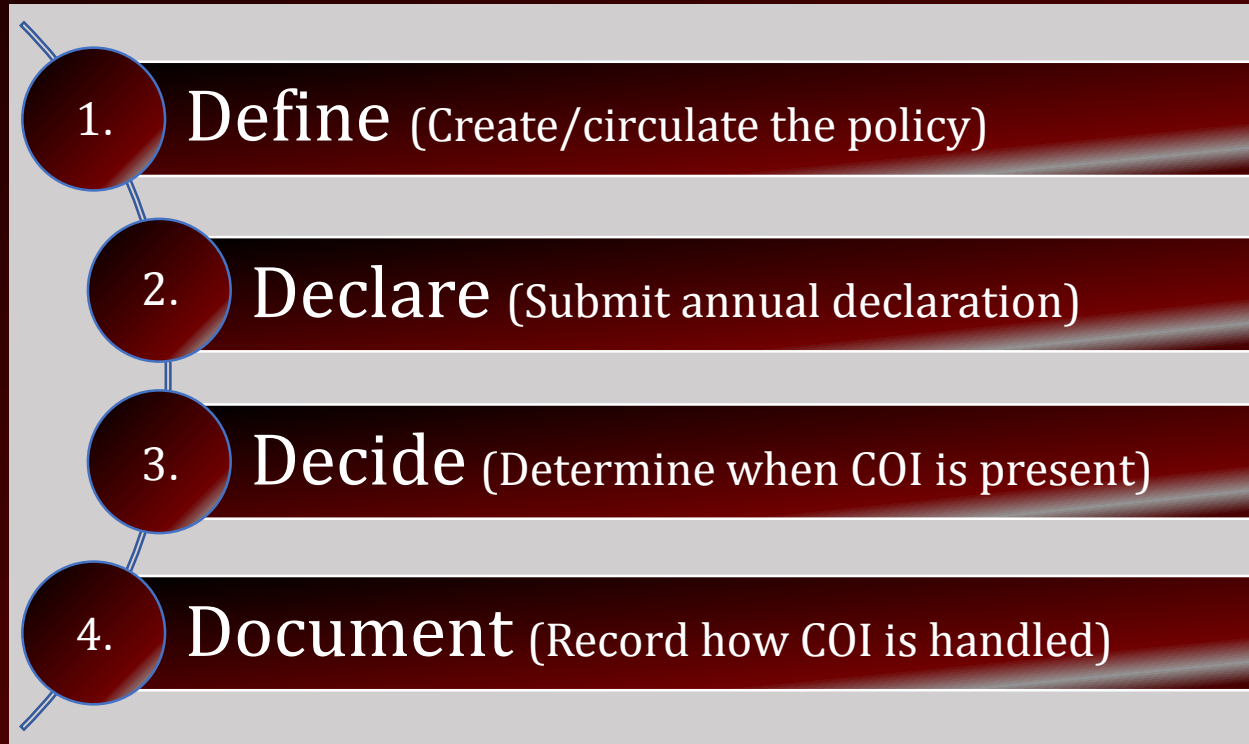Faithfulness to corporate purpose and mission

What to look for:

Compliance with governance documents
Compliance with laws
Fulfilling commitments (to owners, to employees, to clients, to community, to government)

Conflicts of interest—Four basic rules:

1. **Define** (Create/circulate the policy)

2. **Declare** (Submit annual declaration)

3. **Decide** (Determine when COI is present)

4. **Document** (Record how COI is handled)

Independent director/conflict of interest

Independent director

- A structural matter
- Director's positional relationship to the organization

Conflict of interest

- An episodic matter
- Director's potential for bias in a specific decision

Conflict of interest:

➤ Because of the common objectives embraced by the various organizational units… membership held concurrently on more than one…committee or board does not of itself constitute a conflict of interest provided that all the other requirements of the policy are met. While serving…(on) multiple denominational entities is thus acknowledged and accepted…director…is expected to act in the best interest of that organization and its role in denominational structure.

Conflict of interest policy:

- Definition of conflict
- Independent directors/trustees
- Disabling guidelines
- Requirement for declaration
- Review process

"Disqualified" persons:

➢ Institution managers, officers, directors, trustees, and employees/agents with authority to act.
➢ Family members of those identified above.
➢ Businesses with 35% or more ownership by 'disqualified person' identified above.

Board policy prohibitions:

➢ Sale, exchange or leasing of property between institution and disqualified person.

➢ Lending money or furnishing goods or services to a disqualified person.

➢ Fulfilling financial obligations of a disqualified person.

➢ Advertising for a disqualified person.

➢ Providing preferential recruitment or business opportunities for a disqualified person.

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The Board meeting:

- Use the more than the

Three windows in the Board meeting:

1. Window to the past
   - Minutes of last meeting
   - CEO report (written summary preferred)
   - Financial statements

Three windows in the Board meeting:

2. Window to the present
    ➢ Administrative or staff appointments
    ➢ Policy approval
    ➢ Board member education
    ➢ Reports from various board committees

Three windows in the Board meeting:

3. Window to the future
   - ➢ Reviewing/updating strategic plan
   - ➢ Timely decisions about the org's future
   - ➢ Capital needs and planning
   - ➢ Succession planning/leadership development

Contemporaneous documentation:

"And while the Great Ones repair to their dinner,
the Secretary stays, growing thinner and thinner.
Racking his brains to record and report what he thinks they
will think they ought to have thought.

—London Institute of Directors 1971 Standard Manual

Governance efficiency:

1. Adequate frequency of meetings
2. Agenda development and management
3. Appointment and delegation of responsibility to committees
4. Use of board-focused technology
5. Board policy formulation
6. Board member orientation and training
7. Board self-assessment

Ten Commandments for Boards:

1. Make the boardroom a safe place to talk.
2. Reserve prime time for the most important item.
3.
4.
5.
6.
7.
8.
9.
10.

Five summary observations:

1. The complexity of organizations and their conduct in society requires an increasing sophistication and attentiveness to governance. Board members need to <u>work harder, faster, smarter and longer</u>.

Five summary observations:

2. Excellence in governance does not happen automatically! It requires on-going education, assessment, and improvement. Periodic (not less than once every two years) Board self-evaluation serves as internal feedback on Board performance.

Five summary observations:

3. Boards are responsible for their own effectiveness:
    - Meeting frequency facilitates timely governance
    - Reports provided to Board in advance of meeting
    - Physical setting for meeting supports good group dynamics
    - Adequacy of time for deliberations and decisions
    - Agenda preparation and prioritization of items
    - Timely documentation and subsequent approval of decisions

Five summary observations:

4. Governance effectiveness is not the same as governance efficiency—the ability to do things well without waste:
    - Adequate frequency of meetings
    - Agenda development and information dashboard
    - Appointment and delegation of responsibility to committees
    - Use of board-focused technology
    - Board policy formulation
    - Board member orientation and training
    - Board self-assessment

Five summary observations:

5. Trustees must be alert to signs of "Mission Drift":
   - Board members cannot clearly articulate mission
   - Chasing dollars and building programs around dollars
   - Regularly questioning whether you are violating ethical or legal standards
   - Core group of board members are pushing the institution in a certain direction
   - Large turnover of staff/board members

Q & A Time