Building the Case for Including Nurse Leaders on Healthcare Organization Boards

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Board composition is a key determinant of board effectiveness. Engaging nurses as voting members of healthcare boards is likely to enhance governance through their clinical operations expertise, professional and gender diversity, credibility and public trust, and consumer insight.

Boards responsible for governing America’s hospitals, health systems, and academic medical centers face daunting challenges in the contemporary environment. These challenges include addressing the changing needs of an aging and increasingly diverse population, advances in medical science and technology, and growing cries from federal and state government, bond rating agencies, the media, and consumers to improve patient care quality while containing costs (Peregrine, 2014; Whittington, Nolan, Lewis, & Torres, 2015).

Given the centrality of nursing leadership and services in dealing with these issues, it is paradoxical that nurses are present as voting members on a minority of governing boards in U.S. hospitals, multi-unit systems, and academic health centers (American Hospital Association [AHA], 2019; Mason, Keepnews, Holmberg, & Murray, 2013; Szekendi et al., 2015). Based on well-established governance theory and a conceptual framework outlined in an earlier examination of this paradox (Prybil, Dreher, & Curran, 2014), the importance of effective governance will be discussed and the case made for increasing the involvement of nurse leaders on the boards of healthcare organizations.

The conceptual framework is built on the premise board effectiveness has impact on organizational performance and board composition is a key determinant of board effectiveness (see Figure 1). Governance theory and evidence from peer-reviewed and professional literature are examined to test this model.

Governance Theory and Research

In both nonprofit and investor-owned corporations, governing boards have overall responsibility for the organization’s mission and values, strategic priorities, and performance. Since the pioneering work of Adolf Berle and Gardiner Means which addressed the foundational
principles of modern corporations (Berle & Means, 1932), several theories of corporate governance have evolved. These include agency theory, stewardship theory, and resource dependence theory.

Agency theory focuses on the respective roles of boards of directors and management in corporate organizations. An agency relationship is established when “one party (a principal) delegates to another (an agent) the responsibility to perform certain tasks on his or her behalf” (Jiang, Lockee, & Fraser, 2012, p. 145). A board of directors serves as the agent of the organization’s shareholders (or, in the case of nonprofit organizations, the communities the organization serves) and is responsible for representing and protecting their interests. At the same time, the board of directors designates management to serve as its agent in operating the organization and holds management accountable for meeting standards the board has established. Agency theory is based on the premise that, without independent oversight, the organization’s management and staff may place priority on their own interests rather than the organization’s well-being. In agency theory, the board’s principal function is to monitor the organization’s performance, enforce accountability, and protect the interests of owners, shareholders, and/or the communities the corporation serves (Mannion et al., 2017).

Stewardship theory holds that the organization’s management and other personnel embrace the organization’s mission and values and, like the board of directors, are committed to the organization’s success. A basic premise of this theory is the goals of the board and organizational personnel are largely aligned and they share responsibility to serve as stewards of the organization and its assets. Therefore, management and other staff members will tend to act in the best interests of the organization (Pechersky, 2016). Stewardship theory also assumes the board of directors will adopt personnel policies that are fair and strive to build trust-based relationships with the organization’s workforce. Given this set of beliefs, the basic role of the board is to nurture a corporate culture that promotes collaboration and focus principally on strategic issues and major decisions rather than monitoring day-to-day organizational operations as agency theory would suggest (Bernstein, Buse, & Bilimoria, 2016a).

Resource dependence theory focuses on the organization’s ongoing need for external support and importance of building beneficial relationships with key external constituencies such as donors, regulators, and others. This theory is based on the premise the organization’s success depends heavily on its ability to generate tangible assets (e.g., financial revenues) and intangible assets (e.g., good will) from a host of external parties. Accordingly, in resource dependence theory, the board of directors is expected to provide expertise and contribute to developing solid links with key external parties. In this manner, the board of directors plays a critical role in generating resources and, very importantly, building credibility, respect, and support for the organization (Pechersky, 2016).

Impact of Board Effectiveness on Organizational Performance

Each governance theory places special emphasis on different aspects of board roles, functions, and relationships with the organization’s internal and external constituencies. However, the theories are unified in recognizing an organization’s governing board
has vitally important legal and moral responsibilities and that its performance has substantial impact on the organization's success. The role of governing boards is much broader and more significant than those whose role and duties are largely or completely advisory.

All health systems have a governing board with overall responsibility for the organization, and some also have subsidiary boards for local hospitals or other units. The role of these subsidiary boards may be purely advisory in nature, or the governing board may delegate some decision-making authority to them. For example, a system's governing board may delegate the physician credentialing/privileging function – a highly important responsibility – to local hospital boards.

In all cases, health system governing boards are responsible for ensuring several critical governance functions are performed for their organizations. These core functions include establishing the organization's mission and values; appointing and defining expectations for the chief executive officer (CEO); setting the organization's direction by adopting its corporate policies and strategic plan; setting quality standards for the services the organization provides; conducting physician credentialing and privileging processes; adopting budgets; insisting the organization is well-managed and complies with applicable laws and regulations; ensuring the board has the collective knowledge and skills to do its job properly; preventing, and when they do arise, dealing proactively with conflicts of interest; evaluating the performance of the board, CEO, and organization as a whole; and taking decisive corrective action whenever performance does not meet established expectations and standards (Nadler, Behan, & Nadler, 2006; Peregrine, 2014).

How well these functions are carried out will determine a board's effectiveness and there is a growing body of evidence – in the healthcare field and other sectors – that board effectiveness has material impact on the performance of the organizations they govern. Examples of research that demonstrate links between effectiveness of boards and various measures of organizational performance include a study of 210 Fortune 500 companies (Payne, Benson, & Finegold, 2009), a study of 217 investor-owned and 156 nonprofit organizations (Zhu, Wang, & Bart, 2016), and a study of 696 diverse nonprofit organizations (Bernstein et al., 2016b). A study involving several hundred hospitals in England and United States found board effectiveness in setting and monitoring quality of patient care is related to hospital performance on standard quality metrics (Tsai et al., 2015). Based upon their experience in evaluating the operating performance of hundreds of healthcare organizations, Moody's Investors Service (a leading bond rating firm) concluded, Effective governance and strong management are both necessary for the continued viability and competitive positioning of not-for-profit hospitals as they make critical capital decisions, restructure operations for health care reform, and compete for patients, physicians, and other skilled professionals. (Moody's Global Credit Research, 2010, p.1)

It is recognized – even among the most effective boards – there will be some flaws in their structure, composition, and how they perform their core functions. However, empirical studies in healthcare and other sectors and the experience of many independent parties such as Moody's Investors Service indicate the level of board effectiveness has substantial impact on the performance of organizations they govern. Additional support for this proposition has been provided in recent years by concrete illustrations of the adverse impact ineffective governance can have on organizations. Inadequate strategic guidance, poor decision-making, and/or weak oversight have been causal factors in serious problems encountered by numerous organizations such as British Petroleum (Colvin, 2010), Hewlett-Packard (Stewart, 2013), and the University of Louisville (McCambridge, 2016).

Evidence regarding governance impact on organizational performance is not totally conclusive and
additional research would be beneficial (Gill, Vijay, & Jha, 2009). However, existing studies and experience in all sectors clearly support the general proposition that there is a positive relationship between the caliber of governance and organizational success (BoardSource, 2017).

The Impact of Board Composition on Board Effectiveness

Many factors contribute to determining the effectiveness of corporate boards in performing their basic functions and, in doing so, meeting their legal and moral responsibilities. Among the principal determinants are the board’s structure (e.g., what standing committees exist), how well the board’s meetings are organized and led, the degree to which the board’s culture nurtures enlivened deliberations and mutual trust among board members, and the board’s size and composition (Nash, Oetgen, & Pracilo, 2009).

All of these factors influence board effectiveness. However, as a general proposition, there is broad accord that the composition of boards – their collective expertise, diversity, and independence – is one of the most important factors. As stated by BoardSource (2017), one of the nation’s leading organizations devoted to studying and improving nonprofit board leadership, “Having the right people on a board makes higher performance – both in the board’s internal and external functions – more likely” (p. 4).

With respect to the collective expertise of the board’s membership, research in many sectors provides strong support for its critical importance. In today’s dynamic environment, boards need a blend of experts in several disciplines to perform its basic functions and meet its leadership responsibilities. For example, a recent study of 2,944 diverse, investor-owned companies in the United States and 16 European countries concluded boards with members having significant expertise in the organization’s particular business sector enabled those boards to better understand industry-related issues and make successful strategic changes (Oehmichen, Schrapp, & Wolff, 2016). A major meta-analysis completed in 2013 examined 122 reports based on solid empirical research regarding board oversight of patient care quality and safety. A principal conclusion was that effective quality oversight is linked closely to the presence and participation of highly informed and skillful board members (Millar, Mannion, Freeman, & Davies, 2013). Evidence suggests an overabundance of board members with expertise in a single discipline may detract from effective board decision-making (Almandoz & Tilcsik, 2016). However, there is broad consensus that having a board comprising persons who collectively bring a healthy mix of expertise and experience in pertinent disciplines is essential to achieving and maintaining effective governance.

Along with expertise, diversity is a second basic dimension of board composition. As expressed by the Business Roundtable (2016) in its Principles of Corporate Governance, “Diverse backgrounds and experience on corporate boards, including those that represent the broad range of society, strengthen board performance and promote the creation of long-term shareholder value” (p. 11). High-performing boards function as teams, and there is substantial evidence teams solve problems better when they are experientially and cognitively diverse (Reynolds & Lewis, 2017). A broad range of studies in several sectors show that diversity – in background, gender, and racial make-up – tends to have positive influence on board deliberations and practices (Catalyst, 2014; Hunt, Layton, & Prince, 2015; Rhode & Packel, 2014).

With respect to gender diversity, there is solid evidence that shows the presence of women on boards has a positive impact on board practices and organizational performance. For example, a meta-analysis of 140 studies found female representation on boards was positively related to two principal governance functions – strategy development and monitoring organizational performance – and to the companies’ financial performance (Post & Byron, 2015). Similar results were found in a global study of...
21,980 companies in 91 countries (Noland, Moran, & Kotschwar, 2016) and several other studies. Evidence regarding the impact of gender diversity on board effectiveness and organizational performance is not totally conclusive (Pechersky, 2016); however, the weight of research findings in several sectors clearly suggests the presence of women on boards has a positive effect on board practices and organizational performance.

A third critical ingredient in board composition is independence (Terjesen, Couto, & Francisco, 2015). The term independent board member generally is considered to include persons who are not an owner, not an employee, and not directly affiliated with the organization in any way except serving as a voting board member. The Sarbanes-Oxley Act of 2002 made the definition of independence more restrictive and increased the requirements for including independent board members on the governing boards of investor-owned companies. Other regulatory bodies such as the New York Stock Exchange have adopted similar restrictions (Anderson, 2011). The Sarbanes-Oxley Act applies only to publicly traded, investor-owned companies. However, some of its key provisions including requirements for boards to include a larger proportion of independent directors have been embraced in the nonprofit sector. For example, the Independent Sector (2015) has adopted the position that a “… substantial majority of the board of a public charity, usually meaning at least two-thirds of its members, should be independent” (p. 24). The Internal Revenue Service (2008) requires a majority of board members in nonprofit organizations to be independent. These organizations and many other authorities believe the presence of independent persons as a majority of the voting members provides an important safeguard in maintaining the organization’s integrity and fidelity to its mission.

The major constructs of the guiding framework were supported by examining pertinent evidence. Through this review process, an expanded model was constructed and is presented in Figure 2.

**Figure 2.** Conceptual Framework of Effective Governance Enhanced by Supporting Evidence

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<tr>
<th>Board Composition</th>
<th>Board Effectiveness</th>
<th>Organizational Performance</th>
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<tr>
<td>Diversity</td>
<td>Direction</td>
<td>Clinical quality and safety</td>
</tr>
<tr>
<td>Expertise</td>
<td>Resources</td>
<td>Financial performance</td>
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<td>Independence</td>
<td>Control</td>
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The Case for Increasing Nurse Presence On Healthcare Boards

The governing boards of America’s healthcare organizations – in concert with their management and clinical leadership teams – face formidable challenges. Improving patient care quality and safety while concurrently controlling healthcare costs is imperative. For many years, including physicians as voting members of healthcare boards and seeking their input in board deliberations has become the norm (Bader, Kazemek, Knecht, Seymour, & Witalis, 2010). Numerous reports indicate physicians compose 18% to 26% of the membership of hospital, health system, and academic medical center boards (AHA, 2019; Prybil, 2016).

In contrast, despite sustained advocacy by the National Academy of Medicine, Robert Wood Johnson Foundation, American Academy of Nursing, and other authorities, a series of
studies conducted since 2005 show the proportion of nurses as voting members of healthcare organization boards has been much lower, ranging from 2% to 6%, with virtually no indication of growth during this period (AHA, 2019; Prybil, 2016). Also, studies consistently have shown a minority of these institutions have nurses as voting members of their boards (Mason et al., 2013; Szekendi et al., 2015). A 2019 survey involving 1,316 hospitals and health systems found only 37% of their boards included nurses (AHA, 2019).

In view of this picture, it would seem to be time – in the context of governance theory and research – to review and reinforce the basis for involving nurse leaders as voting members of America’s hospitals, health systems, and academic medical centers. The level of their engagement over the years has been (and continues to be) limited. What is the case for change? What are the basic reasons for believing boards that govern these institutions should modify their composition to include nursing leaders? In brief, we believe these reasons include:

First, engaging nurse leaders as voting members of hospital, health system, and academic medical center boards is highly congruent with prominent governance theories. In agency theory, a healthcare organization’s management, clinical, and other personnel collectively serve as the board’s agent in operating the organization and fulfilling its mission. In these organizations, nursing personnel ordinarily compose more than half of the total workforce and play a critical role in providing patient care services. Given this reality, agency theory would call for engaging nurse leaders as full-fledged board members to contribute their expertise in fulfilling the board’s core responsibility to monitor the organization’s performance. Similarly, both stewardship theory and resource dependence theory would call for boards to set policies and create an organizational culture that respects, nurtures, and supports the nursing workforce as one of the organization’s largest and most important assets.

Second, research in many sectors has demonstrated board composition is a principal determinant of board effectiveness. Nursing personnel are instrumental in patient care processes and nurse leaders have critical knowledge about factors that influence patient care costs, quality, and outcomes (Sundean, Polifroni, Libal, & McGrath, 2017; Thew, 2018). It seems logical the presence of nurse leaders would enhance board dialog and decision-making (Prybil et al., 2014; Sundean & McGrath, 2016). Moreover, a large proportion of nurses are women and, as stated earlier, numerous studies in many sectors revealed the presence of women as voting members of boards has a positive impact on board effectiveness and organizational performance. In this context, studies of governance in nonprofit community health systems (Prybil et al., 2009) and academic medical centers (Szekendi et al., 2015) found boards of high-performing organizations had a much greater presence of nurses as voting members than the mid-range and low-performing organizations. However, there has been little empirical research focused directly on the impact of nurse presence as voting members, and the results are mixed (Jones et al., 2017; Veronesi, Kirkpatrick, & Vallascas, 2013).

Third, in recent years the public’s trust and confidence in America’s large institutions, including healthcare institutions, has diminished and this poses serious challenges for their governing boards. For many reasons, community understanding and support are vitally important for our nation’s hospitals, health systems, and academic medical centers (Prybil, Ackerman, Hastings, & King, 2013). Numerous studies by Gallup and others have found nurses are highly trusted by the American public (Brenan, 2017). In addition to the expertise and diversity nurse leaders provide, it seems likely their presence as voting members will enhance the credibility and legitimacy of boards and the organizations they govern in the eyes of the communities they serve.

Fourth, as the healthcare industry becomes more consumer-oriented and individual experience of care becomes increasingly important in earning patient loyalty, nurse
leaders can contribute to board decisions by providing invaluable insight into the consumer perspective. As half of the total healthcare workforce, nurses are the largest clinical group with direct patient contact. Moreover, the majority of nurses are women, and women – as customers – are involved in about 80% of consumer goods purchases (Hunt et al., 2015).

Fifth, the duties and responsibilities associated with serving on boards of hospitals, health systems, and academic medical centers are increasingly demanding and, around the country, there is evidence of difficulty in identifying highly capable persons who are willing to accept board appointments and devote the time board roles demand (Murphy, 2013). Our nation’s nurse leaders – in clinical and executive leadership roles, higher education, consulting firms, and other settings – constitute a large and virtually untapped source of talent for appointments to healthcare organization boards. They can bring highly pertinent expertise to board practices and, at the same time, enhance the boards’ gender balance. With respect to maintaining an appropriate level of independence in board composition, it is expected most nurses who are appointed to healthcare organization boards will come from external settings, not internal staff roles.

It is well-established that, in all sectors, boards have substantial impact on the success of the organizations they govern and that the composition of boards – their collective expertise, diversity, and independence – is a key determinant of board effectiveness. Nurses compose a major share of health organization employees and have great influence on quality of care and the patient experience. It is clear experienced nurse leaders can bring highly important knowledge, expertise, and diversity to board composition (Peregrine, 2018).

It is in this context governance theory and the opinions of many experts support the proposition that engaging nurse leaders in governance roles is likely to improve board effectiveness. However, very little research focused specifically on the impact of adding nurses as voting members on board performance has been conducted and the results have been mixed. To test this proposition and strengthen the case for engaging nurses in governance roles, there is a need for research focused directly on the effects of nurse engagement on board deliberations, priorities, and performance (Prybil, 2016; Sundean et al., 2017). Figure 3 depicts the linkages among board composition, board effectiveness, and organizational performance with the proposed addition of nurse leaders. Theoretically, addition of nurse leaders can contribute to board decisions by providing invaluable insight into the consumer perspective. As half of the total healthcare workforce, nurses are the largest clinical group with direct patient contact. Moreover, the majority of nurses are women, and women – as customers – are involved in about 80% of consumer goods purchases (Hunt et al., 2015).

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leaders will enhance board composition and board effectiveness through their clinical operations expertise, professional and gender diversity, credibility and public trust, and consumer insight.

**Recommendations for Action**

Factors that historically have impeded the involvement of nurses in governance roles – such as gender bias and board nomination and selection processes that often do not even consider nurses as qualified candidates – have been identified (Prybil et al., 2014). Logic, common sense, and advocacy efforts by nursing associations and other organizations have been insufficient to overcome these barriers and, as a result, the presence of nurse leaders as voting members of governing boards. Up to now, this type of dialog and collective action to increase the presence of nurses on governing boards has been sparse, but it has potential to make substantive impact.

**Second,** chief executive officers and board leaders of healthcare organizations where nurses have been appointed as voting board members should be encouraged to discuss their experience with peers in other organizations whose boards do not yet include nurses. A large majority of the nation’s hospital, health system, and academic medical center boards do not have nurses as voting members and, as a result, have not had opportunities to witness the contributions nurse leaders can make to board deliberations. The governance and executive leadership of these organizations – certainly those who serve on the board committees who make nominations for board appointments – can benefit from learning about the experience of organizations who have; for example, through presentations by board and executive leaders of organizations who have nurses on their boards at educational conferences and through articles in publications that are read widely by trustees and executives. Nurses who presently are serving on boards can play an important role by stimulating and facilitating these efforts.

**Third,** nursing associations at the state and national levels should continue their efforts to encourage and assist nurse leaders to become prepared for board membership. For example, education focused on board responsibilities and functions, characteristics of high-performing boards, attributes of effective board members, and key governance issues in the contemporary environment would be helpful for nurses who have interest in serving on boards. Also, schools of nursing should include core governance concepts and principles in undergraduate and graduate curricula and, in addition, should acquaint students with the important contribution nurses can make through serving on healthcare boards.

**Fourth,** well-designed studies are needed to test the proposition that involving nurse leaders as voting members improves board effectiveness. If, as governance theory and research in other sectors would suggest, the evidence that emerges from this research is clear and compelling, it would add power to the arguments for adding nurse leaders to boards. This evidence should assist in lowering some of the traditional barriers that have limited the participation of nurses on healthcare boards and create more opportunities for nurse
leaders who wish to serve in governance roles.

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Editor’s Note: To highlight the importance and benefits of nurses on boards, Nursing Economic$ is proud to partner with the Nurses on Boards Coalition in publishing the Nurses on Boards column in the journal (see page 209). Also, listen to the Nursing Economic$ Podcast with Coalition leaders at www.nursingeconomic.net

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