A company’s board of directors is a select group of individuals with the skills and expertise needed to oversee the entity’s management activities. Board members are chosen based on their:

- Understanding of the specific business or its industry sector
- Business acumen
- Financial or legal training
- Ability to reach a consensus with fellow board members in the oversight of corporate activities
- Ability to work closely with the management team.

Whether they are recruited or volunteer, we should not lose sight of the fact that these individuals spend increasing amounts of their time serving as board members, and that they must perform their duties in cooperation with the management team.

Among medical professional liability (MPL) companies, the composition of the board is unique. The critical stock-in-trade for board members is medical expertise, which assists in the understanding of underwriting, risk, and claims. While legal and financial expertise is generally required for audit and investment, among other committees, the critical function of oversight is often best served by the inclusion of individuals with medical training from diverse specialties.

**Board selection criteria**

There are other considerations as well, which can predict whether a candidate for director will perform his role efficiently. In its assessment of each candidate, the board should review the following:

- Does the candidate for board member have the right skill set?
  The board should constantly be on the lookout for potential board members who can serve the company using objective judgment.

Typically, board members are selected from the local community, the industry, or even from the ranks of retired company officials. These people should have an understanding of company activities and ideally know what makes this particular company successful.

In MPL, retired physicians and private practitioners seem to be the directors of choice. They have the skill set and need little training to ramp up in the critical underwriting, risk, and claims functions of the board and its committees.

- Can the candidate contribute to the oversight process; i.e., is he engaged in the company’s operations?
  While the board members are certainly evaluated on their attendance at board and committee meetings, they should also be evaluated according to the level of attention they pay when at these meetings. A simple check on the level of engagement is whether a Blackberry/iPhone shutdown is requested as the meeting starts. A more convincing test would be each member’s level of contribution to the actual deliberations of the board.

  Most MPL directors, if they have an active practice, are extremely reluctant to shut down their devices during board or committee meetings. In the current information retrieval age, and with the proliferation of advanced communication devices, physicians can be on call every minute of every day. This presents a major conflict when important board issues arise at the same time as a medical crisis.

- Will the company appropriately reward the board members for their time and effort?
  Board members take time out of their daily activities to serve on the board. An appropriate level of compensation should take into consideration their opportunity costs or what they could be earning if they were not attending a board meeting.

  The formula for compensating a medical professional in the MPL industry is different from that used by a typical board. Medical, legal, and financial professionals who serve on the board of a MPL...
company put their practice on-hold while in board or committee meetings. For some, this can have a significant impact on their earnings. The compensation system used to pay these board members needs to be fair and equitable, taking into consideration the opportunity costs for these directors.

**Board oversight imperatives**
The board should establish certain minimum requirements for the management team. Specific priorities and operating objectives should be established to ensure successful operations. However, these tasks have to be set within guidelines that have become universally accepted by policyholders, stakeholders, and shareholders. Some of the considerations that board members use in assessing the management team’s effectiveness include:

- **Does management run the company without incurring undue risk?**
  What is the management team doing to effectively advance the company, build value, and maintain financial stability? Is the management team incurring undue risk? This can mean different things in different industries. For financial services, it might mean compliance with all regulations. In the manufacturing sector, it might mean maintaining strong relations with labor groups. The management team must constantly assess whether it can achieve the board’s strategic plan without compromising the intrinsic value of the company.

  In the MPL industry, management must “stick to its knitting.” First and foremost, MPL companies provide their policyholders with high-value, low-cost risk protection in the form of MPL insurance. For stakeholders (physicians and hospitals that have an ownership stake in the company), patient safety and risk prevention should be the critical focus of attention for management. For stockholders of publicly traded companies, return on equity should be important. Other measures of success include preservation of company assets, maintaining the operating budget, providing a healthy return on assets, or invested capital, etc. The strategic objectives of the company should not conflict with these measures of success.

- **Is management committed to the strategic plan of the board?**
  With regard to the strategic plan, board members want to know whether management can support and achieve the plan that they’ve established. The management team implements this plan through a variety of tactical measures, and these become the method upon which the board evaluates management team effectiveness.

  Among MPL companies, strategic objectives of the board should be translated to tactics that the management team uses to achieve financial stability and operational efficiency. The board is required to determine what the strategic objectives should be, and management must act on these goals and objectives. Most companies use these objectives to define management success.

- **Does the company continue to be viable and strong?**
  And, as the number-one priority for the board, the criterion should be, does the company remain viable and strong? Virtually everything that the management team does is evaluated by the board. Board members have a duty to constantly check in with management, to see if assistance is required, and to report back to fellow board members that they’ve fulfilled their oversight obligations with management.

  Among MPL companies, and especially PIAA companies, preservation of assets seems to be the most critical measure of success. The management team focuses its attention on the continued viability of the company as measured by its financial strength. Achieving target levels of performance in various financial measures, including net income, underwriting profit, combined ratio, and adjusted loss expense ratio, among other measures, allows the board to establish how successful management is in conducting the affairs of the company. Ultimately, the board wants management to be successful and continually improve on the effectiveness of the organization.

  The relationship between the board and management is complex. Each side has the responsibility to consider the other’s performance and to constructively work at improving their own performance. The management team typically has a description of duties and responsibilities as well as annual performance objectives, and board members need to annually evaluate management’s performance.

**Prospects for the future**
Board members are increasingly called upon to bring a strong skill set to the board room and to stay there longer than they have in the past. These additional requirements make board membership more valuable to the company and the individual who serves.

For related information, see www.total-comp.com.