Session Objectives

1. Review the pressures on boards of not-for-profit hospitals and health systems in this era of health industry transformation;

2. Describe 5 keys to governance excellence;

3. *Share* specific governance practices used by the highest-performing boards across the country;

4. Identify specific ideas for ensuring your board is highly effective;

5. Secure input for the AHA on services needed by trustees.

*Please note that the views expressed by the conference speakers do not necessarily reflect the views of the American Hospital Association and Health Forum.*
Exercise #1 – Your Expectations

- Individually write down 1 or 2 things you hope to learn or discuss during this governance workshop (e.g., board competencies needed for the future)

- Be prepared to share your expectations with the full group
The Context: Heightened Scrutiny & Pressure

Office of Inspector General

The Not-for-Profit Board

Congress
Attorneys General
Bond rating agencies
Plaintiff law firms
Your own board members

State & local governments
IRS
Unions
Public at large
Independent Sector
Your own board members

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Governance is Key

“Why are (bond) ratings upgraded? The number 1 reason is effective management and governance”

Lisa Goldstein, Moody’s Investors Service

“We believe there is a direct relationship between exempt organizations adopting and following good governance practices and their compliance with the tax code”

Director, Exempt Organizations, IRS
“Care Systems” of the Future and Present

- Composed of hospitals, physicians and other care givers
- Financially aligned
- Operationally integrated
- Patient-centered
- Co-led by clinicians and executives
- Scaled to achieve economies and synergies
- Accountable for results and paid for “value”
- Focused on highest quality at lowest cost for entire populations across the full continuum of care
Full Continuum of Care

Acuity

Community Based Care

- Ambulatory Procedural Center
- Diagnostic & Imaging Centers
- Urgent Care
- Telemedicine
- Home
- Wellness & Fitness Center
- Occupational Medicine

Acute Care

- Hospital
- Hospital
- High Acuity
- Retail Pharmacy
- Or

Post Acute Care

- Rehabilitation Hospital
- Skilled Nursing Facilities
- Senior Apts.
- Assisted Living
- Hospice
- Home Care & Home Hospice

Other Collaborative Opportunities

LTACH

Adapted from SG2 Model – May 2011
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New Challenges & Opportunities

- Historically, acute care (hospital) focused boards
- Now need to govern an entire ‘care system’:
  - Adding all the pieces
  - Coordinating care among all clinicians
  - Ensuring smooth transitions cross the continuum
  - Building population health management capacity
- Requires tough decisions:
  - Quality improvement \textit{and} cost reduction
  - Physician engagement \textit{and} conflict of interest awareness
  - Strategic partnership development \textit{and} community connectedness
- Leadership, especially by the board, is critical
“Boards must re-think the way they govern to successfully lead their organizations through transformative times. Transformation requires frequent self-reflection and concerted action.”

AHA Center for Healthcare Governance, *Governance Practices in an Era of Health Care Transformation*
Health Care Governance Best Practices

1. Visionary, Strategic and ‘System’-focused
2. Nimble, Streamlined and Clear
3. Intentional, Disciplined and Consistent
4. Competency-based, Informed and Evaluated
5. Objective, Transparent and Accountable
1. Visionary, Strategic & ‘System’-Focused
Ensure a Clear, Shared Vision & Strategy

**Vision**
Working together, we will transform health care in our state:
- Be the standard of excellence in safety, quality, service & value
- Provide easy access to an integrated system of care
- Eliminate care disparities
- Prepare care providers to thrive in future care environment

**Mission**
To improve the health of those we serve and prepare the next generation of care providers for our state

**Core Strategies**

1. Clearly define the role of the system
2. Integrate select business functions and processes
3. Initiate system-wide affinity groups to share best practices and stimulate innovation
4. Build a comprehensive aligned network of healthcare professionals
5. Organize regional delivery networks with standard quality and business principles
6. Develop shared support services for regional delivery networks
7. Create deeper ambulatory/PCP presence
8. Establish close, integrated relationships with targeted hospitals
9. Engage other hospitals in the region through affiliations that complement system of care
10. Build a Clinically Integrated Network
11. Develop population health / risk arrangements with the state
12. Cultivate strategic relationships with key managed care players

**Build capabilities to optimize system performance**

**Align with physicians and other providers to meet needs of population**

**Expand system of care to better serve our market**

**Secure competencies for value-based care environment**
Engage the Board in Strategy & Visioning

Board and Management’s Work: “What”

Overseeing Process & Ensuring Stakeholder Participation

Situational Assessment

Clarifying Planning Assumptions, Drawing Strategic Conclusions, Identifying Critical Strategic Issues & Discussing Options

Board’s Work: “Holding Management Accountable for Performance”

Mission and Core Values

Vision

Strategic Goals

Objectives

Management’s Work: “How”
Conduct a Full Situational Assessment

Healthcare Landscape

Political
- Competition
- Industry Structure
Social
- Quality & Safety
- Care Model
Economic
- Competition
- Industry Structure
Technological
- Quality & Safety
- Care Model

Addressed the ‘Brutal Facts’?

Strategic Conclusions
Critical Strategic Issues

Organization’s Position

Market Assessment
- Patient origin
- Service area definition
- Demographics
- Market share
- Competitor profile
- Payer profile
- Community opinion surveys

Internal Assessment
- Stakeholder perceptions
- Activity trends
- Financial assessment
- Patient satisfaction
- Quality performance
- Medical staff profile and dependency

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Be Care ‘System’ and Patient-Focused

- 77-Year Old Woman:
  - Chronic leg pain
  - Chronic bladder issues
  - Occasional depression
  - Alzheimer’s diagnosis

- 15 (independent-practicing) physicians/providers affiliated with 3 different Academic Medical Centers

- Living in retirement community with only one nurse
‘Care System’ Approaches

1. Case Managers
2. Patient Centered Medical Homes
3. Accountable Care Organizations
4. ‘System’ Metrics and Dashboards
5. Others?
Exercise #2 – Clear Strategy & System-Focused?

Chat with your neighbor about the following:

1. Could you clearly articulate your hospital’s strategy to a community member?
2. Does your hospital use a ‘care system’ approach to its patients and families?
2. Nimble, Streamlined & Clear
Not a Nimble, Streamlined or Clear System

21 Legal Corporations and Boards
4 Layers of Boards with in 6 Systems
Over 10,000 Hours a Year in 247 Board & Committee Meetings
Governance Streamlining Trends

- Holding Company Governance
- Shared Authority Governance
- Modified Operating Company Governance
- Pure Operating Company Governance

Trending in this Direction

Less Amount of Integration More
System Board Roles

- Mission and Values
- System-wide Mission Effectiveness
- System-wide Strategic Direction and Performance Measures
- System-wide Finance and Investment
- System-wide Audit and Compliance
- System-wide Quality, Safety, and Satisfaction
- System-wide Executive Oversight
- System-wide Governance
- System-wide Monitoring

Hospital Board Roles

- Mission Effectiveness
- Community Needs
- Quality and Safety
- Credentialing
- Patient Satisfaction
- Performance Monitoring
- Input:
  - Strategy
  - Finance
  - Executive Oversight
  - Nominating
Board’s Overall Duties & Responsibilities

- **Protect Financial Health**
- **Ensure Competent Management**
- **Set Strategic Direction**
- **Ensure Clinical Quality, Service, and Safety**
- **Advocate for Those Served and the Organization**
- **Duty of Care**
- **Duty of Loyalty**
- **Duty of Obedience**
- **Perpetuate Effective Governance**

- **Core Governance Responsibilities**
- **Fiduciary Duties**

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Committee Structure Alignment

Board

- Quality: 82%
- Finance: 80%
- Executive: 66%
- Governance & Nominating: 60%
- Audit & Compliance: 52%
- Executive Evaluation & Compensation: 37%
- Mission / Community Benefit: 17%

**New Committees:**
- Care Transformation Committee
- System Information and Quality Committee
- Enterprise Risk Management Committee
- Advocacy Committee

AHA Center for Healthcare Governance 2014 National Health Care Governance Survey Report
Committee Role Clarity

Sample Committee Charter

I. Purposes and Authority
II. Key Responsibilities
III. Meeting Frequency
IV. Membership
V. Leadership
VI. Staff
VII. Reporting Responsibilities
VIII. Annual Committee Goals
IX. Annual Self Evaluation
X. Annual Meeting Calendar
Exercise #3 – Clear Structures & Roles?

- Write down a few notes for yourself in answer to these questions:

1. Does your organization’s corporate, legal structure need to be revisited?
2. Should your board review / update its committee structure or committee charters?
3. Intentional, Disciplined & Consistent
Intentionally Respecting the Governance-Management Distinction

- **Governance** – Exercising accountability by setting goals, making major policy and strategy decisions, and overseeing implementation

- **Management** – Delivering results by implementing policy and strategy as set forth by the governing body, managing operations, and reporting on performance
Exercise #4 - Mini Case Studies

- Is this governance or management?
  
  1. Terminating the long-time chief of nursing
  
  2. Deciding whether to acquire land and a building for a future medical clinic (expected cost: >$750,000)
Questions to Help Clarify Roles

1. Is it big?
2. Is it about the future?
3. Is it core to the mission?
4. High-level policy decision needed?
5. Is a red flag waving?
6. Is a watchdog watching?
7. CEO wants/needs board’s support?

Note: If the CEO asks the Board for advice on a management issue, the CEO should ‘declare’ that intent, and be responsible for bringing the Board back ‘up’ to governance.
Board / Management ‘Partnership’

Old Work
Management defines problems and creates plan

New Work
Board and management work together to discover issues that matter and solve problems while honoring the governance / management distinction

Discuss Board / Management Roles

- Depending
- Certifying
- Partnering
- Selectively Controlling
- Dominating

Amount of Board Involvement

Less

More

Disciplined Approach to Board Meetings

- Create streamlined, more strategically-focused Board presentations, materials and agendas:
  - Annual meeting calendar with strategic topic per meeting
  - Targeted, governance-level packets
  - 60% of time spent strategic issues
  - 75% of time spent in discussions
  - ‘Framing questions’

- Clarify reporting expectations
Sample Consistent Reporting Expectations

Consent Agenda Items
_Items requiring Board approval but not anticipated to require Board discussion_

Executive Summary
_Summary of committee actions and ‘asks’ of the Board_

Minutes & Dashboard
_Minutes from meeting and dashboards_

Formal Resolutions
_Major transactions such as significant financings_

Verbal Presentations
_Only if the committee has an ‘ask’ of the Board, and if so, Committee Chair, not staff leads the presentation_
Exercise #5 – Intentional and Disciplined?

- Write down your answers to these questions so you know whether your board could benefit from discussions about these topics:

1. Would it be helpful for your board to spend some time discussing board – management roles? Why or why not?

2. What changes, if any, do you suggest be made to your board meeting agenda or procedures to increase your board’s effectiveness?
4. Competency-Based, Informed & Evaluated
Competency-Based Governance: A Foundation for Board and Organizational Effectiveness, American Hospital Association’s Center for Healthcare Governance 2009

** Not ‘Representational’ Governance
## Member Selection Matrix

<table>
<thead>
<tr>
<th>Individual Prerequisites</th>
<th>A. (name)</th>
<th>B. (name)</th>
<th>C. (name)</th>
<th>D. (name)</th>
<th>E. (name)</th>
<th>F. (name)</th>
<th>G. (name)</th>
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<td>1.</td>
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<thead>
<tr>
<th>Competencies &amp; Perspectives (Needed in total)</th>
<th>A. (name)</th>
<th>B. (name)</th>
<th>C. (name)</th>
<th>D. (name)</th>
<th>E. (name)</th>
<th>F. (name)</th>
<th>G. (name)</th>
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All board and committee members are “vetted” using this matrix
New Competencies Needed

“The evolution of new paradigms such as population health, consumerism, bundled payments, managing care across the continuum and new market players also are influencing the board competencies needed to thrive in this environment.”

AHA Center for Healthcare Governance, *Effective Governance in Systems*, 2015
## Average Board Size & Composition

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Number of Board Members</th>
<th>Physicians (Percentage)</th>
<th>Other Clinicians (Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>System Board</td>
<td>16</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>Subsidiary Hospital Board</td>
<td>12</td>
<td>22%</td>
<td>9%</td>
</tr>
<tr>
<td>Standalone Hospital Board</td>
<td>12</td>
<td>17%</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Board Is Reflective of Community’s Diversity (Scale of 1 – 5; Not at All to Completely)**

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>System Board</th>
<th>Subsidiary Hospital Board</th>
<th>Standalone Hospital Board</th>
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<tbody>
<tr>
<td></td>
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<td>3.5</td>
<td>2.9</td>
<td>3.4</td>
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</table>

**Gender**

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Females</td>
<td>28%</td>
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<tr>
<td>Males</td>
<td>72%</td>
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**Boards with Term Limits (Average is 3, 3-Year Terms)**

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<tbody>
<tr>
<td>System Board</td>
<td>82%</td>
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<tr>
<td>Subsidiary Board</td>
<td>82%</td>
</tr>
<tr>
<td>Standalone Board</td>
<td>71%</td>
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</table>
Competency-based Board Succession Plan

- Rigorous, competency-based recruitment, selection, and re-appointment processes overseen by Governance Committee
- At least one independent expert in each key area
- Recruit for “governance temperament” and “boardroom skills”
- Appropriate sized board and committees
- Non-board members on committees
- Terms and term limits
- Non-representational (i.e., no quotas)
- Ask if recruitment is limited to the local community, can boards get the competencies, independence and diversity they need?
## Sample Board Education Calendar

<table>
<thead>
<tr>
<th>Educational Topics by Meeting</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
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</thead>
<tbody>
<tr>
<td>Board</td>
<td>A</td>
<td>D</td>
<td>E</td>
<td>F</td>
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<td>I</td>
<td></td>
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<tr>
<td>Finance</td>
<td>B</td>
<td>J</td>
<td>D</td>
<td>A</td>
<td>I</td>
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<td>Gov. and Nom.</td>
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<td>E</td>
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<tr>
<td>Community Benefit</td>
<td>C</td>
<td>B</td>
<td>C</td>
<td>J</td>
<td>E</td>
<td>A</td>
<td></td>
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<td></td>
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<tr>
<td>Quality</td>
<td>D</td>
<td>I</td>
<td>C</td>
<td>B</td>
<td>D</td>
<td>A</td>
<td>J</td>
<td>H</td>
<td>F</td>
<td>E</td>
<td></td>
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<tr>
<td>Strategic Planning</td>
<td>E,A</td>
<td>K,B</td>
<td>C,F</td>
<td></td>
<td>I,H</td>
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<tr>
<td>Retreat/Education Sessions</td>
<td>B,J*</td>
<td>K*</td>
<td>A,B,E,F,H,K</td>
<td>C*</td>
<td>C,D,G,I,J</td>
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<tr>
<td>Annual Board Orientation</td>
<td>B,C,D,E,H,K</td>
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A – Health Reform  
B – Fiduciary Duties  
C – Mission Matters  
D – Quality Oversight  
E – Strategic Direction  
F – Physician Alignment  
G – Advocacy  
H – Institutional Integrity  
I – Information Technology  
J – Advanced Governance  
K – Leadership and Board Participation  

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Conduct Regular Board Self Evaluations

Board Self-Assessment
Board Responsibility by Category Comparison 2016 to 2011

Section 1 - Mission and Planning Oversight
Section II - Quality Oversight
Section III - Legal and Regulatory Oversight
Section IV - Finance and Audit Oversight
Section V - Management Oversight
Section VI - Board Effectiveness

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Exercise #6 – Competencies & Education Needs

Talk at your tables about these topics:

1. What additional competencies could your board use to ensure it can appropriately oversee your ‘care system’?
2. Are any changes needed to your board succession planning process?
3. Should your board conduct a self-evaluation?
4. What specific topics would you like addressed in educational sessions for your board?
5. Objective, Transparent & Accountable
Board’s Fiduciary Duties Review

The Board of Directors

Basic Duty of Oversight

Owed to

Shareholders (For-Profit)

The Public Trust (Non-Profit)

Enforced by

State Attorneys General

The Charitable Beneficiaries

Enforced by

The Duty of Loyalty

The Duty of Obedience

The Duty of Care

Business Judgment Rule

Reliance on Expert Reliance on Management

True to Central Purposes / Mission

The Duty to Disclose

Shareholders

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The board must be knowledgeable of all reasonably available information and act with appropriate prudence and care.

This means directors must:
1. Disclose situations with potential for conflicts.
2. Avoid competition with the organization.
3. Refrain from discussing confidential board business with others.

The board must ensure that the organization is obedient to its central purposes as described in its articles of incorporation and the mission.

Discharge duties unselfishly, to benefit only the corporate enterprise and not the directors personally.

How to Abide by Your Fiduciary Duties

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Independence & Transparency

IRS & Attorney General Concerns:

- Use of charitable assets / tax exempt status
- Executive compensation
- Audit and compliance oversight discipline
- Risk management
- Pricing, quality, and process transparency
- Effective governance
- Conflict of interest and independence rigor
Determine Conflicts & Independence Approach

The Law
Nothing Illegal

Middle Ground
Nothing Illegal, but Not ‘Squeaky Clean’

Best Practice
Beyond Reproach
Governance Transparency

- Governance principles
- Board structure
- Board policies
  - Audit oversight
  - Compliance oversight
  - Executive compensation
  - Director evaluation
  - Community benefit
- Board processes and decisions
- Board members’ expertise and potential conflicts of interest
Board’s Own Accountability Practices

1. Written policies, position descriptions and committee charters
2. Mandatory orientation and mentoring
3. Board portal
4. Board member and leader development and succession planning
5. Board chair and committee chair coaching
6. Meeting evaluations
7. Annual board and individual board member self evaluation and goal-setting
8. Annual board retreat(s)
9. Regular governance structure, composition and practices review
10. Comprehensive, annual education plan
11. Healthy, engaged board culture
Exercise #7 – AHA Poll on Trustee Services

Open the Conference Mobile App

Select **Trustee Services Poll** from the menu

Touch each question to go to its answers.

Select your response and hit **Submit your response** at the bottom.

Touch the X in the upper left corner to return to the questions.
American Hospital Association Trustee Services Poll

1. I am a:
   a. Trustee/Board Member
   b. CEO/Administrator
   c. Physician (if MD/DO trustee, select Trustee/Board member)
   d. Other Executive/Manager
   e. Other (e.g., Consultant, Vendor)

2. If you are a trustee/board member, how long have you served on the board?
   a. Less than 2 years
   b. 3-5 years
   c. 6-8 years
   d. More than 9 years

3. What is the main challenge facing your hospital over the next year or two?
   a. Improving clinical quality, safety and service
   b. Aligning with physicians
   c. Developing strategic partnerships
   d. Transitioning to population health management
   e. Ensuring financial stability

4. Which governance responsibilities does your board most need to better understand?
   a. Setting and monitoring strategic direction
   b. Protecting financial health and managing risk
   c. Overseeing executive performance and development
   d. Assuring clinical quality, safety and service
   e. Advocating for stakeholders served/community benefit
American Hospital Association Trustee Services Poll (Continued)

5. **What governance-specific topics would your board most like to learn more about?**
   a. Board competencies
   b. Board performance and evaluation
   c. Board leadership development
   d. Board engagement and culture
   e. Committee structure and effectiveness

6. **What type of resource does your board most need from the AHA to govern effectively?**
   a. Hot topic ‘issue briefings’ for boards
   b. Governance trends/best practices case studies
   c. Networking with other trustees from hospitals like mine
   d. Governance tools and samples
   e. Orientation materials for new board members

7. **In what format would you most prefer to receive these resources from the AHA?**
   a. Conferences
   b. On-demand webinars/videos
   c. Digital/on-line
   d. Print resources
   e. PowerPoints/presentation packages
Observations & Next Steps