Governing Large Nonprofit Systems:
A Preview of CEO, Trustee Perspectives

Much has been written about our nation’s health care organizations’ grappling with forces that demand new delivery and payment models focused on more accountable, value-driven care. That’s the big picture. But what does the perspective look like on the ground? How are health care organizations reacting and adapting?

New research on board structures, practices and culture in large nonprofit systems provides insight into how boards and CEOs are addressing the challenges of change — and changing the way they govern in the process.

This workbook explores several themes emerging from review of system documents and 71 on-site interviews with CEOs and senior board leaders in 14 of the country’s 15 largest nonprofit health care organizations. In cooperation with the American Hospital Association, the study team in fiscal 2010 selected participating systems using a blend of three measures of size: annual systemwide operating expenses, number of facilities in the system and number of counties in which those facilities are located. Participating systems are listed on page 17.

A complete report of study findings will be published in spring 2012. This preview, however, reveals a picture of organizations on the leading edge of change, simultaneously implementing a wide variety of strategies to position for success.

While each organization is creating its own path to the future, areas of challenge and focus are more alike than different. Systems in the study are committed to continuous improvement and are engaged earnestly in a variety of creative initiatives to meet the challenges of change. And, leaders of all of these organizations agree on one thing: Strong governance and engaged boards are essential to achieving the levels of performance these large health systems need to fulfill their mission commitments to the patients and communities they serve.

THE CHALLENGES OF CHANGE

Study CEOs and trustees identify challenges and raise questions about the future that provide a compelling context for how they view governance and leadership in their organizations. Their feedback also identifies topics and issues on which their boards must focus to improve their contributions to organizational success.

Several common themes emerge regarding the greatest challenges CEOs and trustees believe their systems are facing now. Most are concerned about major shifts occurring in health care delivery and payment, what this might mean for their respective organization’s vision for the future and whether their systems will have the ability and will to change. As systems move from a focus on hospital care to health promotion and wellness, their leaders are grappling with questions such as: What do we want to become? What is the right and best direction? Do we shrink, consolidate or grow? As one participant suggests, “It’s imperative that our systems assess what we are, what we can be and what we should be, both as systems and as local organizations in the communities we serve.”

CEOs and trustees frequently cite the dual and often conflicting challenges of doing better with less: increasing value to stakeholders by improving care quality and cost-effectiveness — and doing so with fewer resources. They identify the need to “define the services we can provide at the level of quality needed within the constraints of available resources.” At the same time, they recognize the reality of having “limited resources to meet virtually unlimited needs.” Yet, leaders in these systems report significant initiatives already under way to address these chal-
Challenges. As one senior board leader says, “As a nation and as a system, we are facing serious long-term resource constraints. We must transform our system to reduce costs while increasing quality by centralizing certain functions, institutionalizing best clinical and management practices, and enabling care delivery with new information systems and capabilities.”

Within this broader context, other challenges CEOs and trustees raise include balancing the need for “systemness” versus local autonomy; finding, developing and retaining the necessary clinical, management and board talent to lead and implement change; and more fully aligning and integrating with physicians to deliver care in new ways under new payment models.

The uncertainty of health care reform is a persistent theme: not only what will happen, how and when it will happen and what its impact will be, but also the opportunity for health care systems and associations to influence meaningful and constructive reform.

Religious-sponsored systems (64 percent of the study population) report the challenge of maintaining their systems’ Catholic identity as the number of men and women seeking religious vocations declines and fewer are involved in governing and leading the organization. In response, several Catholic systems report adopting the public juridic congregation as a means of directing financial and management practices, and institutionalizing best clinical quality by centralizing certain functions. We must transform our systems and capabilities.”

LEADING THROUGH CHANGE

While the complete report of the study will identify and discuss a wide range of governance issues facing these organizations and practices they are already undertaking, we will focus on four themes that weave through the study findings:

- The need for boards to be more strategic;
- Recognition of the importance of improving patient care quality and safety and the role of governance in improving system performance;
- The need to strengthen board and CEO succession planning; and
- The value of and need to support a culture of strong governance and board engagement.

More Strategic Governance

Applying a strategic orientation to health care governance and leadership has moved beyond simply periodic engagement in the planning process. It now involves an ongoing process of guiding and monitoring progress toward achieving an evolving set of strategic priorities focused on accomplishing the organization’s mission in pursuit of its vision.

According to the Center for Health Care Governance’s Blue Ribbon Panel on Trustee Core Competencies, the ability to govern and lead strategically now is regarded as a core competency for board members and executives. Recognition of the board’s important strategic role and the value of enhancing the board’s strategic focus is a key study finding. Ample evidence from the study illustrates the effort and commitment these boards are making to address this issue.

Eleven of the 14 participating systems (79 percent) report having a standing committee on strategy and planning. Others indicate the strategy function is conducted by the executive committee or conducted by the full board. One system is considering establishing a strategic planning committee instead of the current practice of using ad hoc task forces to oversee strategic projects.

Systems in the study are testing several approaches to enhance strategic governance. One organization is devoting an entire board meeting each year to strategy. Another challenges all of its committees to generate strategic questions and issues for board-level discussion. As a result of a board evaluation, one board decided to develop a greater focus on strategic thinking, devote more time to strategic deliberations than verbal reports at meetings and more actively engage in strategic planning. Several boards now incorporate a major strategy session as part of every board meeting.

When asked how much time participating boards spend on strategic thinking and planning during board meetings, median estimates range from 15 to 52 percent, with the overall average being 30 percent.

Several CEOs and trustees comment on the value of undertaking a visioning process. One participant says: “We created a 20-year picture of the future — a real vision that was easy for everyone to grasp and rally around — and that has helped us make some tough decisions.” Another notes: “Strategic alignment of our vision, direction, strategy and priorities helps everything.”

Improving Care Quality, Safety

Study participants consistently report that quality and safety performance has become a strong focus for clinical,
management and governance leadership in their organizations as payers accelerate movement away from reimbursement based on volume of services delivered to payment based on quality and safety performance.

Several systems report that quality is a primary focus for their boards and for some precedes finance on the board meeting agenda. Thirteen of 14 of the participating systems have a standing board committee on patient care quality and safety. Some are considering making their current quality committee a committee of the whole to more fully engage the entire board in quality and safety. All participants report that their boards routinely receive systemwide quality performance reports.

Some systems indicate their local boards need to focus more strongly on patient care quality and safety and that variation in performance across the organization prompted the system board to raise the bar on quality performance. One participant reports that as a result of a board self-evaluation, the system board re instituted its quality committee and now spends more time on quality issues.

Several systems report they are improving infrastructure to better support board quality oversight: Promoting evidence-based medicine, setting systemwide quality targets, linking executive compensation with quality performance and gaining a better understanding of how quality performance is affected by other performance metrics such as labor costs.

CEOs and trustees note there is room for improvement in board quality oversight in areas such as establishing better metrics, adding more clinical expertise to the board and standardizing quality control systemwide. All recognize the need to sustain or deepen their board’s and system’s focus on quality. As one system executive comments, “We are a clinical quality organization, not a health care delivery organization.”

**Stronger Succession Planning**

The importance of identifying and developing talented leaders with the vision and skills to successfully guide their organizations into the future cannot be overstated. Research reported in the July/August 2010 issue of *Trustee* magazine indicates that succession planning has a direct impact on corporate credit ratings and that investors strongly favor active board involvement in the process.

Despite the importance of this governance responsibility, a 2009 survey conducted by the National Association of Corporate Directors found that only 57 percent of public companies in the United States had a formal CEO succession plan. And, an October 2011 article in the *Harvard Business Review* also reported that almost half of the 1,000 directors surveyed by PricewaterhouseCoopers and *Corporate Board Member* magazine were dissatisfied with their companies’ succession plans.

Succession planning is even less common in hospitals. A study of freestanding U.S. hospitals funded by the American College of Healthcare Executives found that only 21 percent routinely conduct succession planning.

It’s not surprising, then, that succession planning for both board and executive leaders was an area study participants recognize as vitally important. At the same time most say succession planning could be improved and that they are already in the process of doing so.

Five of the 14 systems report their boards have adopted formal succession plans for the board chair, board committee chairs, the CEO and other senior management positions; most of the others are developing the components of a comprehensive succession planning model. One system reports the recent adoption of a CEO succession plan with a three-to-five-year horizon and internal candidates intentionally identified, developed and tested.

In another case, each year the board gets a report on plans for the top 20 senior positions in the organization, each with one or more designated replacements. Leaders in another system report there has been a “massive change” in management succession planning in the last five years and that now the process is “in-depth and thorough.”

Some systems report that a formal board leader succession process does not exist and needs to be developed. Others observe that board succession planning is “short of the mark” and is more reactive than proactive. Several describe using identified competencies to select board members and leaders, but that the candidate pool is smaller than they would like. Some say it is difficult to recruit younger people or people they really want to join the board because of the time commitment or lack of compensation. Others describe an intentional process for building board leaders that includes ongoing development and vice chairs to back up all committee chairs and the board chair.

The following comment summarizes the views of several CEOs and trustees regarding board and CEO succession planning: “There is board and CEO
awareness that both board and management succession planning are important and we are starting to work on them.”

A Governance Culture
A 2009 report of research on governance in high-performing community health systems concludes that boards with a healthy culture demonstrate the following core characteristics:
- Robust engagement;
- Mutual trust and willingness to take action; and
- A commitment to high standards.
A 2007 report from the Center for Healthcare Governance’s Blue Ribbon Panel on Health Care Governance describes an effective board culture as one characterized by:
- a commitment to the organization’s mission;
- well-defined governance processes;
- board members with broad skills and diverse backgrounds;
- a focus on organizational performance;
- a strategic orientation;
- engagement;
- ongoing education;
- explicit expectations for high performance among board members; and
- constructive dialogue and debate.
Study findings provide insights into several of these cultural characteristics.
- Ninety-two percent of CEOs and trustees say their board’s actions always demonstrate deep commitment to the organization’s mission.
- Eighty-nine percent say there is always a strong focus on honoring board conflict of interest and confidentiality policies.
- Seventy-six percent report that system clinical and financial performance is always closely tracked by the board and action taken when performance does not meet targets.
- Seventy-five percent of CEOs and trustees say there is always mutual trust among board members.
- Fifty-eight percent agree that board leadership always holds board members to high standards of behavior and performance.
- When asked whether robust engagement and respectful disagreement is always encouraged, 51 percent of participants agree.
- Thirty-four percent say that their system board meetings always focus principally on strategic deliberations rather than on receiving information.
When asked to describe their respective CEO’s level of commitment to developing a strong system board with the above characteristics, virtually all board members agree their CEOs have a deep commitment to building strong and effective governance. Numerous board members commented that having such a commitment requires a strong, confident CEO.
All but one of the systems report having a written, board-approved document that specifies the allocation of responsibility and decision-making authority between system and local-level leadership. This document typically is described as an authority matrix, which helps provide definition and clarity for decision-making responsibilities and processes.
Forty-three percent of CEOs and 60 percent of trustees say their board’s deliberations would benefit from additional expertise in specific areas.

CONCLUSION
As more and more hospitals become part of larger health care organizations, research on system governance and leadership provides important insights into how the structure and operation of these organizations are evolving. Findings from this current study of large systems provide a picture of health care governance and leadership in transition. Most importantly, however, study results underscore the commitment these executives and board members have made to lead their organizations through the transformational changes confronting them. They also confirm the value and contributions continue to make to quality, safe and affordable care for the patients and communities their organizations serve.

This study was funded by Hospira Inc.; Grant-Thornton LLP; Hall, Render, Killian, Heath & Lyman; Korn/Ferry International and Sullivan, Cotter and Associates Inc.

Mary K. Totten (megacom1@aol.com) is a governance consultant and content director for the AHA Center for Healthcare Governance, Chicago. Lawrence Prybil, Ph.D., FACHE (lpr224@uky.edu), is professor and associate dean, College of Public Health, at the University of Kentucky, Lexington, and principal investigator for the study cited in this article.