



The American Hospital Association's

**CENTER FOR
HEALTHCARE
GOVERNANCE™**

The Value of Governance

Monograph Series

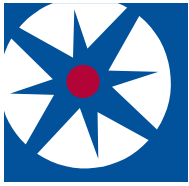
About the Author

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About the AHA's Center for Healthcare Governance

The American Hospital Association's Center for Healthcare Governance is a community of board members, executives and thought leaders dedicated to advancing excellence, innovation and accountability in health care governance. The Center offers new and seasoned board members, executive staff and clinical leaders a host of resources designed to progressively build knowledge, skills and competencies tailored to specific leadership roles, environments and needs. For more information visit www.americangovernance.com.

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Overview

Improving value. That's job #1 for today's health care organizations.

A 2012 study of *Governance Practices in an Era of Health Care Transformation* conducted by AHA's Center for Healthcare Governance found that work to create greater value is where hospitals and systems in the study—and their governing boards—are spending most of their time. According to study findings, participating organizations “are concentrating on the nuts and bolts of... reducing costs and improving care quality.” The work is wide-ranging and intensive:

- Reducing variation in medical practice across care settings.
- Understanding the total cost of care and how to get paid for it.
- Applying academic research to care delivery.
- Removing waste.
- Minimizing risk.
- Educating and engaging communities and other stakeholders about the impact of new ways of delivering care.

The study further focused on how boards are improving their own governance practices. Activities include broadening approaches to trustee selection; engaging in more dialogue; asking more challenging questions; and leveraging technology to prepare for and participate at board meetings. Trustees also are embracing continuous learning—as individuals, as a full board and together with clinical and executive leaders—and applying new knowledge and skills to governance.

The study discussed the most important contributions boards have made to prepare their organizations for the transformational changes they are now experiencing. Boards contribute value through governance by

focusing on the mission and vision and ensuring that strategies are aligned with achieving them, keeping performance and its measurement focused on the future and ensuring that the organization remains accountable to the communities it serves. As the chief executive of one study organization said:

“When I was a young CEO, I didn’t know much about governance and undervalued it. I saw boards as a necessary evil. Now I have completely changed my view. My best experiences are when it’s just me and the board talking, exchanging views. They ask me what I’m worried about, whether I’ve considered various issues. I really grow through these interactions.”

In 2013 the Center explored the “value of governance” more deeply, seeking broader feedback about the following questions from board members and executives of hospitals and health systems, and governance researchers and consultants:

- What does it mean to bring greater value to the community through board service?
- What are boards doing now that they could do better?
- What are boards not doing now that they should be doing?
- What should boards stop doing that doesn’t add value?
- What would health care organizations be like if they didn’t have boards?

This publication shares their perspectives. It also includes questions for discussion and an exercise boards can undertake to transform governance in their own organizations.

Bringing Greater Value to Communities

Being champions for healthier communities in and outside the board room is an important way participants said boards contribute value through governance. The work begins with better understanding on whose behalf the board governs.

“Boards need to better understand the organization’s stakeholders—who they are, what the board’s accountability is to them and who holds the board accountable,” said one governance author and researcher.

Boards also need to understand stakeholder needs. Said one trustee, “Boards should consider value through the eyes of patients and communities...what do they want?... quality, compassionate care and needed services that are accessible...that’s what community members would perceive as greater value.”

Participants said boards bring important capabilities and perspectives to the work of creating value in health care. These include:

- Inserting the values and viewpoints of the customer into board discussion and decision-making.
- Injecting views that are different from those of hospital management—an “out-of-the-box” perspective.
- Contributing experience from other industries that have already gone through the changes health care is now confronting.
- Offering a “purer voice of political advocacy” than paid hospital personnel.

As one trustee said: “I try to bring an owner mentality to governance as if I’m doing my best work for a client or a company I’ve been running...I’m thinking about how to keep the organization safe for the next 10 or 20 years. That’s what I think about when I put on my independent hat and enter the boardroom.”

Guiding development of value-focused care systems means boards will oversee new areas of work for their organizations that will impact board function, structure, accountability and relationships.

“With health care moving toward a community and population health focus, boards need to oversee development of health promotion strategies and activities and track their progress with performance metrics on health promotion, disease prevention and health disparities. If this doesn’t happen at the board level, it will be more difficult to move health care organizations toward that goal,” a health care executive suggested.

Yet, as boards take on this new work, one participant cautioned:

“In the move toward population health, boards should remember to focus on individuals, especially those who have health conditions that may not fit into typical health care ‘populations.’ This also extends to recognizing the importance of preserving individual voices and choices in a time when we are aggregating and integrating.”

New board work also may require new governance structures, such as adding a community benefit or population health committee. (See the Summer 2012 *Great Boards* newsletter at www.greatboards.org for more on how boards are incorporating oversight for community benefit into their work and structure.)

Boards can help build healthier communities by taking a more active role in the community as well. Trustees and executives said boards need to:

- Advocate for lifestyle changes in the community to raise overall health status.
- Help educate their communities about the hospital’s role to assist people in managing their health and intervene when it’s absolutely necessary.
- Be prepared and engaged to respond to press coverage on health care issues.

- Be ambassadors to the community to explain how health care works now and champion efforts to determine how it needs to evolve.

“Having good quality health care close to home does a lot, not only for a community’s health, but for its social and economic development,” a trustee observed. “Boards need to carefully and thoughtfully engage their communities around these issues.”

Being a champion for healthier communities ultimately means that boards have to acknowledge their accountability and then follow through. Participants shared these perspectives:

“Boards need to see themselves as accountable for avoidable deaths and harm that occur in the hospital. That’s the board’s fundamental accountability. Board members also need to question more and follow through to ensure they get answers. Many boards discuss health care delivery trends but don’t dig deeper or discuss how these trends apply to their own hospital.” (See *Governance Practices in an Era of Health Care Transformation* at www.americangovernance.com for more on how boards are taking an active role in improving care quality and safety.)

“Boards should see that hospitals deliver good value for an individual’s health care dollar, whether people are covered by insurance or paying out of pocket.”

“Boards have to be able to demonstrate to the community what they are doing to help their hospitals improve quality and safety, reduce costs and improve outcomes for individuals and populations. That will be true accountability.”

When boards demonstrate their accountability, performance improves (see How One Board Delivered Value above).

Helping their organizations determine the business and care delivery models that will

Sidebar

How One Board Delivered Value

“Our board decided to require that the board chair be called whenever a serious adverse medical event occurred. This was information the board had never received...we had adopted a ‘culture of complacency’ where we acted as if quality was the physician’s responsibility...Calls started coming in and the board learned that bad things were happening...we had cheeseburgers in the operating room when surgery went over the lunch hour, anesthesiologists taping over air circulation vents, x-ray techs sleeping on the floor and sterile solutions left out for hours before surgery. As chair I had to go before the medical staff and say that this performance wasn’t good enough...I got tarred and feathered initially but now we have top decile performance because the board found out what was going on and intervened.”

lower costs and sustain improved health care quality and safety is another way boards add value for the communities they serve. A first step is achieving a common understanding of the new reality.

“Boards can help their hospitals come to grips with the reality that medicine cannot be practiced today in a value-focused world the way it was under a fee-for-service system,” said one executive. “Boards need to help determine the business model for the future,” a trustee added. “They need to consider the hospital’s role before and during the current changes hospitals are facing and what that role should be after the transformation to new models of care delivery and payment occurs.”

Participants suggested many ways boards can help craft new models for health care: “Boards need to think beyond their own organizations to how all hospitals in a community can collaborate to care for not only insured people, but those who haven’t had access before. Are boards thinking this way? If they did, they and hospital leaders might view their current relationships with other providers differently.”

“Boards need to examine with hospital leaders what their organizations should contribute back to the community economically, because not-for-profit hospitals don’t pay taxes.”

“Boards should facilitate hospitals working with other community organizations, especially

not-for-profits, to allocate resources to improve community benefit. They also should encourage hospitals to offer job opportunities to young people who may not be employed to get work done in an environment where the demand exceeds the supply.”

Education will be required, participants said, for boards and executives to work together effectively in guiding development of new business and care delivery models:

“In our state we have trustee certification with testing to show boards that service is not just an honor but a learning experience and fiduciary responsibility on behalf of the community.”

“Boards need tools...and education to do their jobs...CEOs need education about how to work with boards.”

Questions for Discussion

1. *Does our board understand who our health care organization’s key stakeholders are and their most important needs and concerns?*
2. *What perspectives and expertise has our board contributed to helping our organization create greater value for the communities it serves? What points of view or capabilities are we missing?*
3. *How has our board’s work and structure (composition, committees, etc.) changed to reflect its role in guiding development of value-focused care delivery?*
4. *Is our board taking a more active role outside of the board room to help improve the overall health of the communities our organization serves? If not, what activities might our board undertake?*
5. *How has our board contributed to developing a value-focused business and care delivery model that will be sustainable for our organization? What education or other resources does our board need to participate effectively in this work?*

Improving Governance Practices

Participants had wide-ranging discussions about what boards can do to improve their performance. Being accountable—for their own governance and to the community—was the primary way they said boards can improve current practices.

Accountability begins with good governance in the board room. Suggestions ranged from the simple and practical (participating during meetings; using consent agendas and executive sessions regularly; and asking probing, intelligent questions) to better overseeing specific board responsibilities, such as executive development and succession planning and enterprise-wide risk management. Additional suggestions to improve today’s governance practices appear in the sidebar “Being Accountable for Good Governance” on page 9. The case example included in the Appendix on page 13 also can help boards assess how to begin transforming their own governance practices.

Demonstrating accountability to the community also is part of the new work boards will undertake in transforming health care. (See *The Evolving Accountability of Nonprofit Health System Boards* at www.americangovernance.com for a broader discussion of board accountability and how boards are demonstrating their accountability to the community and other stakeholders). Boards that are accountable to the community:

- “Own” community health.
- Talk about how the hospital is improving care and performance in vehicles like the annual report.
- Champion creation of safe environments and high-reliability organizations.
- Observe care in action on the front lines, participating in quality improvement projects and building their own knowledge of care delivery.
- Ensure hospital leadership and board membership reflect the communities served.
- Focus board work around community partnerships, improving community health and clarifying the hospital’s and individual’s responsibility for lifestyle choices and how they impact a person’s health.
- Understand who the board “works for” and how it is accountable to the community and other stakeholders.
- Tell the hospital’s story in the community—“boards have the moral authority.”

As one trustee suggested:

“Boards need the courage to make changes, which means they need to be attuned to what they can do better. We have to recognize that our past success may be detrimental to our success in the future...the hospital is a major employer and extremely important to community health, so boards would simply be letting the community down if they did not make the hard changes required.”

Sidebar

Being Accountable for Good Governance

Boards that are accountable for good governance:

- Hear from patients at meetings.
- Balance the board agenda with strategy and education.
- Evaluate each meeting and overall board performance, incorporating “soul-searching” about the value the board contributes.
- Have robust committee meetings that include experts to increase board productivity.
- Create interesting meetings that are respectful of board members’ time and add value.
- Select effective chairs.
- Have the courage to make needed change.
- Get and use better information that supports improved decision-making.
- Understand each other’s personal leadership style.
- Don’t approve recommendations that don’t make sense.
- Are good ethical watch dogs.
- Really look at the business the hospital is in and how it is affected by health care reform.
- Articulate relative roles and responsibilities among boards and management.
- Are competency-driven.
- Organize board work around access, quality and efficiency.

Sidebar

What Boards Should Be Doing

In today's environment boards should:

- Engage voluntary, outside quality auditors who are accountable to the board for reviewing the organization's quality performance. (The auditor meets with the board Quality Committee, sends an opinion letter to the board chair and management gets constructive feedback.)
- Get involved in political advocacy.
- Prepare for and broaden their engagement to include community outreach to businesses, educational institutions and other organizations.
- Participate in more board-to-board engagement, but know where to draw the line.
- Re-examine their fiduciary roles and obligations to care for patients in a quality, safe manner.
- Review their committee structures to determine if they are too focused on operations.
- Lead innovation.
- Encourage hospitals to pool expertise with public health departments to improve community health.
- Avoid group think and be courageous.
- Become more diverse to better reflect the communities their hospitals serve.
- Engage in more full-board and individual member self-evaluation.
- Do a better job of recruiting and selecting members for skill sets needed to deal with the changes affecting health care organizations. ("We need to give ourselves permission to go outside of the community to get the expertise we need.")
- Acquire a sufficient frame of reference to better assess the information and reports they are reviewing. ("If a report contains 14 indicators that show performance below target, how can board members just go on to the next report?")
- Worry less about "being pleasant" and start asking questions.
- Engage in scenario planning and be more strategic.
- Have a committee that looks at mergers and acquisition.
- Look outside of the hospital for new ideas and views.
- Keep their hospitals committed to having physicians on the board, despite conflicts and employment.
- "Push" their hospitals into taking responsibility for community health.
- Avoid micromanaging, but give themselves permission, at times, to go below 30,000 feet to gain perspective. ("I can't see anything from 30,000 feet!")
- Consider having a Chief Governance Officer.

Participants also reflected on what boards are not, but should be, doing. The sidebar above lists some of their suggestions.

Finally, participants said boards should examine their own work with an eye toward

streamlining and eliminating practices that don't add value. Asking the CEO's opinion can be helpful. Specific suggestions:

"Boards need to move beyond being hospital-centric and look at how other

organizations (Wal Mart, Walgreens, etc.) are involved in health care.”

“Moving away from a ‘compete and win’ mentality toward determining what health care organizations can do together to achieve what’s best for the community is a huge philosophical shift that needs to be made, particularly among chief executives.”

“Boards need to stop wasting time with presentations and reviewing minutes at meetings to free up more time for discussion.”

“It could be very powerful for boards to more fully document their generative conversations beyond the board’s regular minute-taking process at meetings so these conversations can be more fully explored.”

“Boards need to evaluate their members at least once each term and stop reappointing trustees who don’t contribute or perform. They also should re-examine use of term limits to ensure they are not losing high-performing members.”

Participants also encouraged boards to “stop taking a doom-and-gloom approach and inject a level of optimism about health care board work” as one way to attract younger people to board service.

Questions for Discussion

1. *In what ways has our board improved its governance practices over the last three years?*
2. *How could our board add greater value?*
3. *How does our board demonstrate its accountability for improving care quality and safety, reducing costs and improving outcomes?*

A World Without Boards

What would health care organizations be like if they didn’t have boards? “Less connected to the community” was the most common response. Some participants said that hospitals would be more “cold and clinical, less caring” and that they might have “higher margins and lower quality scores” and would provide less care for vulnerable populations.

Concerns about damaging “turf battles” and dysfunctional “boundary creep” between the roles of hospital executives and physicians also surfaced. Some participants said if boards disappeared, CEOs and other leaders would lose a source of advice and counsel, philanthropic support and the competitive advantage that an effective board can provide.

Others predicted there would be fewer hospitals in communities, and those that remained would be more “market-driven.” They cited the current trend toward organizational consolidation that sometimes also results in fewer boards or a diminished role for local boards. Some acknowledged that conversion foundations that emerge from hospital sales replace local boards as the “eyes and ears” of the community and sometimes ease the way for organizational integration.

Less scenario planning and risk assessment as well as perpetuation of the status quo were other observations participants made about a world without boards. As one trustee said: “Nothing would get shaken up.”

Questions for Discussion

1. *What would our organization be like if the board did not exist?*
2. *Does our board make a difference for our organization and the communities it serves?*



Conclusion

While participants provided a number of suggestions about how boards can improve their performance, they clearly articulated the value boards can bring. Committed, effective boards connect hospitals to their communities—providing stewardship of an essential community resource; giving a voice to patients and families; and ensuring that quality, safe, affordable health care remains available to those their organizations serve.

Appendix

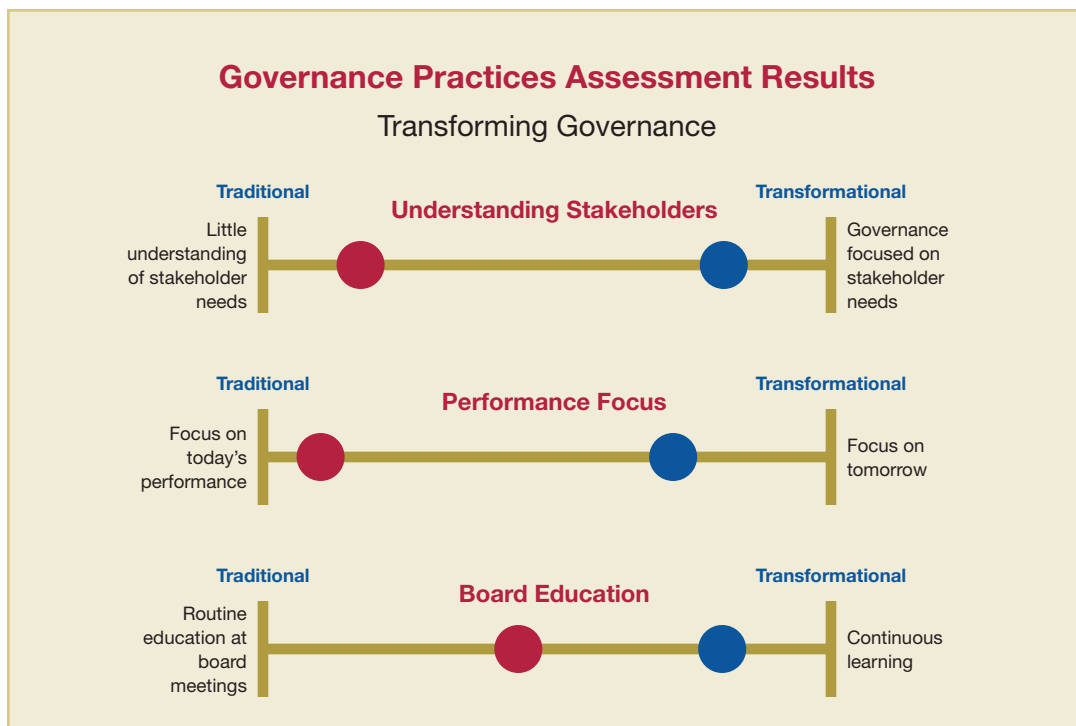
Case Example: Beginning the Governance Transformation Process

At a recent retreat, the board of XYZ Hospital decided to transform its current governance practices to more effectively guide their hospital through the major changes in care delivery and payment now underway. Using the recommendations of the AHA's Center for Healthcare Governance study of *Governance Practices in an Era of Health Care Transformation*, the board identified and prioritized 10 governance practices it determined were critical to its future success. Each practice was described on a continuum, ranging from traditional to transformational. Board members identified on each continuum their assessment of the board's current practice (shown in red) and the extent of change they believed would be needed to achieve transformational governance (shown in blue). All assessments were aggregated and displayed on the chart below. The chart and the following list of discussion questions were distributed to each

board member in advance of the board's next meeting to enable preparation for full board consideration of the assessment results and next steps.

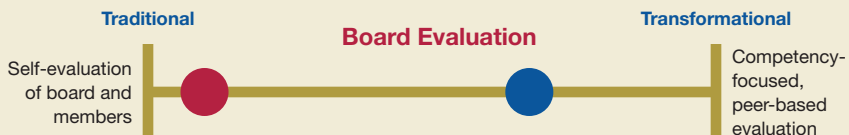
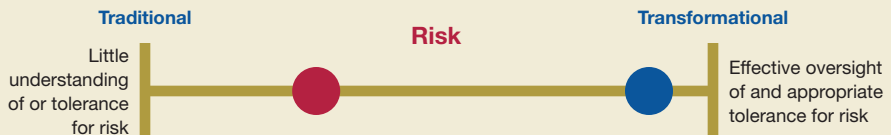
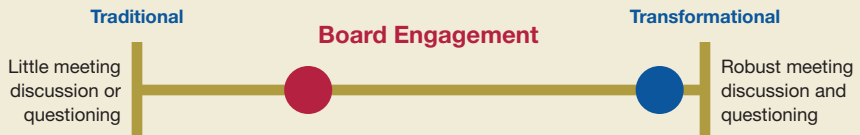
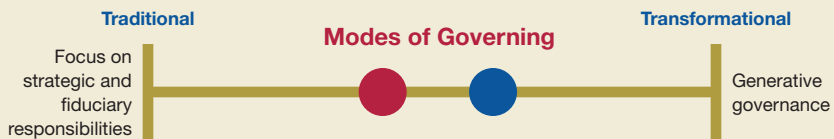
Discussion Questions

1. What was your overall impression of the assessment results? Did any of them surprise you?
2. Which practices should the board focus on first?
3. What resources might be needed to address near-term priorities?
4. What challenges might we face as we change our governance practices in these areas?
5. What timeframe should we establish for addressing these issues?
6. Who will lead this effort at the board level (full board, Executive Committee, Governance Committee, etc.)?
7. How will our board measure success?



Governance Practices Assessment Results

Transforming Governance



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