



Trustee Services

Evaluating and Improving **BOARD COMMITTEES**

By Barry S. Bader
and Elaine Zablocki

Working committees are the engine that powers effective boards. As their responsibilities increase, boards depend on their committees to engage in careful analysis and oversight of the organization's performance plus a thorough vetting of recommendations before they are submitted to the full board. When committees do their job well and make concise reports to the board, they free up time to use full board meetings for education and open discussion on important strategic and policy issues.

Despite the importance of committees, few boards engage in a regular and focused evaluation of their working parts. Although board self-assessment questionnaires often include general questions about committees, they usually don't probe each specific committee to evaluate and carry out ongoing improvements in responsibilities, size, makeup, meeting frequency, agendas, information, and relationships with management.

In this issue, *Great Boards* takes a fresh look at committees and how to make them tools of great governance. We examine the most common committees used by hospitals and health systems by looking at their responsibilities and then recommending self-assessment questions.

Critical Success Factors for Committees

While committee responsibilities vary, these critical success factors are broadly applicable to virtually all committee work:

1. Right responsibilities defined in current charters.

Two questions form the starting point of committee effectiveness: "Are we doing the right work?" and "Have we defined our work in a statement of committee responsibilities?" Each committee needs a current charter describing its responsibilities, meeting frequency, the reports it should routinely review, and its composition. The self-assessment process allows the board to review and update its committee responsibilities and charters.

2. Committee goals.

Committee responsibilities tend to remain fairly constant over time, but committee priorities should change to reflect environmental trends and organizational needs.

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Each committee should choose a limited number of goals or focus areas each year. For example, the Quality Committee might emphasize reduction of medication errors, while the Audit Committee might study the implications of the new Form 990.

3. Committee work plan and calendar. To enable the committee to focus its work on its goals and critical responsibilities, management staff should prepare an annual work plan for each committee's approval. The plan should lay out anticipated reports, actions, education, and goal-oriented work. Meetings should be scheduled a year in advance to allow directors to block time on their calendars.

4. Composition and rotation. Committees should have a mix of generalists and specialists in the committee's subject area. Rotation can be helpful in maintaining fresh thinking and exposing more board members to each committee's work. (All board members should understand what every committee does.) But rotation shouldn't mean that a committee loses an irreplaceable expert. Rotation is best used in moderation. Some hospital boards appoint all new members to at least one year on the Quality Committee, since quality is the area of least familiarity to most directors.

5. Size. A committee's size should match its breadth of responsibilities. Larger committees of 10 or more (plus invited guests) are good for communicating information to many stakeholders, while smaller commit-

tees are better at focusing on the agenda and engaging in interactive discussion and close scrutiny of reports. Oversight committees, such as audit and executive compensation, are usually small and highly expert, with three to five members. Quality committees tend to be a bit larger (commonly seven to nine members) due to the desire to have physicians, community board members, and C-suite leaders around the table. Community benefit committees may include non-board members from the community and are often even larger.

6. Frequency and length of meetings. A committee's anticipated workload should determine its meeting schedule. Unless an organization is facing a financial turnaround or other crisis situation, monthly committee meetings foster an operational rather than strategic focus and should be avoided. Increasingly, committees are meeting four to eight times a year but having somewhat longer (two hours or more) strategic meetings. The frequency and length of meetings should be planned to meet specific objectives.

7. Relationship with management. Each committee should have at least one executive who is responsible for staffing the committee and working closely with the committee chair. In their relationship with management, committees should strike a balance between partnership and independence in exercising their fiduciary responsibilities. On one hand, directors want to support management by leveraging their knowledge and com-

Committee priorities should change to reflect environmental trends and organizational needs.

munity connections to help senior leaders achieve success. At the same time, the board relies on its committees to provide an objective review of management's performance and proposals. Partnership and independence require regular fine-tuning to avoid the extremes of sycophancy and cynicism. An overly collegial board can fail to ask challenging questions, so a bit of healthy skepticism is vital for directors. Conversely, boards can carry their oversight role too far, playing the role of inquisitor, asking operational questions or adopting a tone of distrust and antagonism.

8. Candid discussion. Committee meetings should not be dominated by management presentations. Committees should devote a significant amount of time to questioning management and engaging in open discussion, not just listening to reports.

9. Informational transparency. Information is the fuel of good committee work. Good staff preparation condenses lengthy reports into concise charts and dashboards visually highlighting trends and key findings. Information should be distributed in advance (usually a week) to allow careful pre-meeting review. A board, as a matter of policy, should insist on transparency and candid reporting of both good and bad news. Sometimes committee members should seek independent information. For example, the chair of the Audit Committee should maintain communication with the independent auditor, and members of the Quality Committee

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might occasionally join in patient safety rounds.

10. Good minutes. A committee's minutes should synopsise its work to inform members who weren't present about salient issues, and to convince outside auditors—if the need arises—that the committee fulfilled its fiduciary responsibilities. (For more information, see FAQ on minutes in the Summer 2005 issue of *Great Boards*, www.GreatBoards.org/newsletter/.)

11. Reporting to the board.

Committees should report their work to the full board, which in turn should review but not rehash committee work. Aside from major actions requiring board approval, most committees can report by including their minutes in a consent agenda. The full board should devote significant time to quality at every meeting, but not rehear previous committee discussions. Instead, the Quality Committee should frame and lead the board's discussion.

12. Evaluation. Each committee should evaluate itself annually or at most every two years. Part of the evaluation should be conducted with management present; part should be held in executive session to permit candid discussion of how well management is staffing the committee, the chair's leadership, and interactions among committee members.

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Sunset and Review Your Board Committee Structure

To keep the board committee structure relevant, consider technically "abolishing" all committees (except those required by law) every one to two years. Reestablish only the committees that are truly needed, given the organization's current vision and the board's core responsibilities. Use task forces rather than standing committees to carry out short-term projects.

Tips for Evaluating Committees

In this issue, *Great Boards* provides self-assessment questions to guide the evaluation of the following board committees:

- Audit and Corporate Compliance Committee
- Community Benefit/Mission Committee
- Executive Committee
- Executive Evaluation and Compensation Committee
- Finance Committee/Investment Subcommittee
- Governance Committee
- Quality Committee/Quality and Professional Affairs Committee
- Strategic Planning Committee

For each committee, we review the committee's most common responsibilities, possible skills and backgrounds of committee members, important information for review, and current "hot issues" to consider when

formulating the committee's goals. Each assessment form includes both general and specific questions.

How should the board use the sample questionnaires? For larger committees, each member can complete a written evaluation; the results can be compiled and discussed by the committee. For smaller committees, the evaluation questions serve as a useful discussion guide.

Who should lead the evaluation discussion? The obvious choices are the committee chair, a committee member, or a director who is not on the committee but serves as facilitator, such as the board chair, vice chair, or chair of the Governance Committee. Committees may want to seek the opinions of staff and outside advisors, such as the independent auditor, concerning the committee's work and opportunities for improvement.

The committee should draft a brief summary of its self-evaluation and any recommendations for improvement. The Governance Committee and board chair should review the evaluation reports of all committees and monitor progress to ensure implementation.

Audit and Corporate Compliance Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

Audit and compliance oversight, traditionally performed by the Finance Committee, is increasingly becoming the province of a separate committee, as not-for-profits voluntarily adhere to the tenets of Sarbanes-Oxley.

The Audit and Corporate Compliance Committee:

- Oversees the work of independent financial auditors.
- Recommends the selection of the external auditor.
- Oversees the work of internal auditors.
- Monitors internal controls.
- Oversees the corporate compliance program, including compliance with state and federal requirements, such as HIPAA regulations, fraud and abuse laws, etc.
- Reviews the organization's financial statements and other financial information provided to governmental bodies, including the IRS Form 990.
- Reviews board members' conflict of interest disclosures and recommends appropriate action, in accordance with the conflict of interest policy.

Note: Conflicts of interest should be reviewed by a committee of independent directors, and thus, many boards assign this responsibility to the Audit and Compliance Committee. However, the Governance Committee or an ad hoc committee of independent directors may also perform the function.

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

While other board committees benefit from diverse skills and backgrounds, the audit/compliance committee needs members with financial expertise, says Robert E. Wilson, chairman of the Audit and Corporate Compliance Committee of Providence Health & Services, a not-for-profit health system serving Alaska, Washington, Montana, Oregon, and California. "This committee has a very specifically defined charter; in order to discharge these responsibilities, you need members with a reasonably strong background in financial reporting and internal controls."

Ideally, all committee members should be independent directors. If this is not feasible, then the chair and a majority of members should meet the board's definition of an independent director.

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—Robert E. Wilson, Chairman, Audit and Corporate Compliance Committee, Providence Health & Services

TYPICAL REPORTS AND EDUCATION

- Annual financial audit plan and report.
- Annual plan and report from the internal auditor.
- Annual compliance plan and periodic reports from the internal auditor.
- Updates on important compliance issues that have developed since the previous meeting and management's responses.
- Conflict of interest disclosures and pertinent background information developed by the corporate compliance officer or general counsel.

The audit/compliance committee should meet regularly (at least annually) with outside auditors, but with no management present. If the organization has an internal audit function, the committee should meet regularly with the chief internal auditor but without other management staff present. Executive sessions support an uninhibited exchange of information, viewpoints, and concerns.

HOT ISSUES

Regulatory agencies are becoming more aggressive in their vigilance of compliance. Medicare's Recovery Audit Contractor (RAC) program audits are a prime example of this, where the financial penalties can be significant. "Governance oversight of compliance risk is an emerging area where many audit and compliance committees are currently trying to define what their role should be. This has taken on a heightened significance in the last five years or so," Wilson says.

Enterprise risk management also is an emerging issue, Wilson says. "How does the board or the committee identify and monitor major risks to the organization, including financial risks, operational risks, strategic risks, and compliance risks?" Financial risks include significant financial underperformance or problems accessing capital. Operational risks include workforce shortages or physician relationship or alignment issues. Strategic risks might include threats from competitors or significant changes in financial payment systems.

Audit and Corporate Compliance Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Are there any areas of potential risk the committee should look into more closely or any special projects it should charter? For example, are employees aware of and would they feel safe using the hotline to report potential problems anonymously? Do the policies on executive travel comply with current external requirements? Is there a document retention and destruction policy, and is it followed?
2. How can committee members improve their knowledge of financial controls, internal controls, compliance issues, and corporate risks? Are all members of the committee “financially literate”? If not, are appropriate steps planned or underway to develop financial literacy?
3. Does the committee have a full understanding of the composition of the company’s balance sheet, including the degree of management judgment inherent in the various accounts? Does the committee understand which financial ratios and indicators are key to the company and industry, how the company’s performance compares with budgetary targets, and how management plans to address any unfavorable variations?
4. How can the committee improve its relationships with auditors and general counsel? Is the committee getting the level of support it needs from internal and outside auditors? Is the committee receiving complete, candid reports from them?
5. Do committee members understand internal controls and their role in the organization? Does the committee meet regularly with the internal auditor and discuss internal control deficiencies and plans to address them? Does the committee monitor management’s corrective actions?
6. Does the committee discuss with external auditors any significant deficiencies discovered during their work? Does it discuss with management how these deficiencies are being addressed?
7. Does the committee periodically update its understanding of the major legal and compliance risks facing the organization, how management addresses these risks, and what impact these risks could have on the financial statement?
8. Does the committee review conflict of interest disclosures filed by board members? Do committee members receive sufficient training in how to assess conflicts of interest? Are disclosures accompanied by sufficient information to enable the committee to take appropriate action with regard to each declared conflict?

Community Benefit/Mission Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

Community Benefit Committees have not been common, but interest in them may grow because of enhanced oversight by IRS and state governments of the way not-for-profit hospitals and health systems fulfill their obligations as charitable organizations.

Community Benefit/Mission Committee:

- Reviews mission and if necessary makes recommendations for changes to the board.
- Reviews and approves a Community Benefit Plan outlining long-term community health strategies.
- Guides and monitors the planning, development, and implementation of major programs aimed at improving the health of the local community.
- Oversees policies and programs designed to carry out aspects of the organization's mission and values, such as assessing and meeting community needs, serving populations with disproportionate unmet health-related needs, and building a diverse workforce.
- Recommends financial assistance policies for approval by the board and oversees compliance with the policies.
- Reviews public communications about the organization's community benefit activities.
- Oversees fulfillment of other aspects of the mission and values, such as provision of compassionate, patient-centered care, that may not be encompassed by community benefit reports.

“Instead of just tallying up the total financial value of our contribution, we’re asking, ‘What’s the quality of our investments? What kind of difference are we making?’”

—Kevin Barnett, DrPH, MCP, Principal Investigator, Advancing the State of the Art in Community Benefit

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

- Local company executives responsible for community relations or corporate diversity.
- Leaders of community service organizations.
- Leaders of public health agencies and organizations.
- Community leaders.
- Marketing executives.

Note: The Community Benefit/Mission Committee often includes both board members and other community members who can broaden the board's information base, offer insights regarding community needs, and build ties to community resources.

TYPICAL REPORTS AND EDUCATION

- Community health needs assessment.
- Hospital utilization reports, categorized by payer, for ED utilization and preventable hospitalizations, to help understand unmet community needs.
- Community perceptions survey.
- Cultural diversity report.
- Annual community benefit plan.
- Report of community benefits activities.
- Report of compliance with hospital's financial assistance policies.

HOT ISSUES

- Community benefits reporting on IRS Form 990.
- State and congressional initiatives to set minimums for community benefit activities.
- Assessing the impact of community benefit spending.
- Public transparency of hospital financial assistance policies and practices.
- Communicating the hospital's community benefit activities to the public and government leaders.

Hospitals should look at community benefit from a stewardship viewpoint, says Kevin Barnett, DrPH, MCP, and principal investigator in the Advancing the State of the Art in Community Benefit (ASACB) demonstration project. “This means that instead of just tallying up the total financial value of our contribution, we’re asking, ‘What’s the quality of our investments? What kind of difference are we making?’”

“Through proactive investment, community-based prevention, and community capacity building, hospitals can reduce demand for ER and inpatient treatment of preventable illnesses,” he adds.

Community Benefit/Mission Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Does the committee engage in substantive discussions, supported by objective information about the community’s healthcare needs?
2. Does the committee annually have a substantive discussion about the organization’s community benefit plan? Is the plan based on a community health needs assessment or other objective sources of data?
3. Has the committee established explicit, rational criteria for priority-setting among potential community benefit activities and projects? Criteria that might be used include the size of the problem, the seriousness of the problem, people and communities with disproportionate unmet health-related needs, economic feasibility, available expertise and resources, the number of people who would be helped, and whether this project complements other efforts by the hospital and other community organizations.
4. Does the committee have a good understanding of the impact community benefit spending has on community health and economic development?
5. Does the committee have a good understanding of the community’s perceptions of the hospital as a charitable organization? Does it discuss the effectiveness of efforts to communicate the organization’s charitable works?

Executive Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

Rather than having a “typical” set of responsibilities, Executive Committees vary in how they exercise their authority (regularly or as needed), in their makeup (officers only or a broad group of leaders), and in which responsibilities are specifically assigned to this committee.

It is common for the Executive Committee to have the power, specifically authorized in the bylaws, to act on behalf of the board. It may be authorized to act on any matter, or it may be restricted from giving final approval for certain actions, such as sale or acquisition of assets, selecting or removing the CEO, or incurring debt. On some governing bodies, the Executive Committee acts as an informal sounding board for the CEO to discuss sensitive or emerging issues with the board’s leadership.

How often should the Executive Committee meet? If the board is right-sized (about 15 members), meets at least six times a year, and has members who live close enough to quickly convene special meetings, the Executive Committee usually meets on an “as needed” basis. It meets when, due to special circumstances, the full board cannot be convened quickly enough to make a time-sensitive decision or to discuss a sensitive matter.

On the other hand, when the board is large, meets infrequently (four to five times a year), or has geographically dispersed members, the Executive Committee is more likely to have regularly scheduled meetings. This is designed to enhance the full board’s efficiency, provide timely communication with management, and offer oversight and decision making between full board meetings.

The committee may also meet at set times if the board designates the committee to perform certain additional responsibilities, rather than establishing separate committees for these functions. These include:

- Executive evaluation and compensation
- Governance and nominations
- Strategy oversight

If your Executive Committee has these responsibilities, see the appropriate committees for self-assessment questions.

TYPICAL COMMITTEE MAKEUP

Some Executive Committees include only the board’s officers, typically the chair, vice chair, treasurer, and secretary, and perhaps one or two at-large members. Other boards believe that because the committee has the power to act for the board, it should have a broader-based membership of board leaders, including the chairs of key committees. When the CEO is a voting board member of the board, the Executive Committee should also include the CEO.

It is common for the Executive Committee to have the power to act on behalf of the board. It may be authorized to act on any matter, or it may be restricted from giving final approval for certain actions, such as sale or acquisition of assets, selecting or removing the CEO, or incurring debt.

Executive Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Has the board delegated appropriate responsibilities to this committee? Does the allocation of responsibilities strike an appropriate balance between using the Executive Committee to make the board’s work more efficient and not usurp work that should be properly done by the full board?
2. Do the bylaws and the committee charter clearly define the circumstances in which the Executive Committee is authorized to act on behalf of the board?
3. Do the bylaws and the committee charter clearly state whether the board must ratify Executive Committee actions or just be informed about them?
4. If the committee meets regularly, does this have an unintended effect of creating an “in-group” or “clique” of board members who process too much information and leave other board members feeling disengaged?
5. If the Executive Committee has authority to act on behalf of the full board, does the committee include a critical mass of experienced, knowledgeable board leaders who should be delegated such authority?
6. Does the CEO make effective use of this committee as a sounding board for emerging issues and sensitive matters? If not, is this an appropriate role for the committee?

Executive Evaluation and Compensation Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

- Recommending policies and processes for performance and compensation review of the CEO, other senior executives, and the organization's disqualified individuals.
- Approving annual goals for the CEO.
- Evaluating the CEO's performance annually.
- Ensuring that the organization's executive compensation program meets IRS requirements and achieves the "rebuttable presumption of reasonableness."
- Approving or recommending to the board the selection of an independent compensation consultant.
- Recommending a compensation philosophy and plan to the board.
- Approving the total compensation program, including incentives, for the CEO and other senior executives.
- Insuring the development of a comprehensive media response plan in case there is public scrutiny of the organization's executive compensation plan.
- Overseeing a leadership succession planning process for senior management.

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

- Executive leadership in a large and complex organization.
- Business owners and entrepreneurs.
- Human resources executives from other businesses.
- Healthcare academics.

All or a majority of the members of the Executive Evaluation and Compensation Committee, and especially the committee chairperson, should be independent directors without any significant economic relationship with the organization. For this reason, members of the medical staff should not be named to this committee.

TYPICAL REPORTS AND EDUCATION

To carry out its responsibilities, the committee needs to review specific information, including data from independent sources on executive compensation, for functionally comparable positions in comparable organizations. For example, a community hospital should review

data from other community hospitals of roughly the same size and complexity.

"IRS intermediate sanctions regulations and other IRS guidance clearly indicates that the committee should rely on appropriate total compensation data on functionally comparable positions in comparable organizations," says Timothy J. Cotter, managing director of Sullivan, Cotter, and Associates, Inc., in Detroit. "If an external compensation advisor is used, that person should be independent."

In addition, the committee should review and periodically update the organization's compensation philosophy statement, which sets a road map for current and future compensation decisions. For example, an organization may choose to target base salaries at the 50th percentile and use incentive compensation to bring total cash compensation up to the 75th percentile if all goals are met. In general, compensation for executives should follow a defined pattern that applies to all top managers.

The committee should review tally sheets showing the value of each individual element of executive compensation, including base salary, incentive payments, health and other insurance, deferred compensation and supplemental retirement benefits, as well as potential future costs (e.g., severance pay and supplemental retirement payments.)

HOT ISSUES

- Leadership succession planning.
- Compensation for physicians and physician leaders.
- New IRS Form 990, which requires enhanced disclosures about the executive compensation process and payments.
- IRS intermediate sanctions regulations, suggesting that a strong board-controlled process relying on appropriate comparability data is the best way to defend executive compensation levels.
- Annual reporting of CEO and other senior executive compensation to, or ratification by, the full board.

"An emerging standard of governance is that once a year the committee will report to the full board, providing an overview of the organization's executive compensation philosophy and program, including fairly detailed compensation information for the CEO and other top executives," Cotter says.

Executive Evaluation and Compensation Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Has the committee engaged an independent compensation firm to provide education, advice, and comparability data? Is the committee reviewing comparability data on executive compensation from independent sources and tally sheets summarizing the value of each element of executive compensation, including potential future costs?
2. Does the committee have access to legal counsel as necessary? Does the committee meet periodically in executive session with its independent advisers?
3. Has the committee approved an overall program design to provide a framework for determining executives’ base pay, incentives, and benefits?
4. Does the compensation philosophy or related governance documentation describe the board’s executive compensation oversight process for creating the “rebuttable presumption” of reasonableness? Does it define the organization’s peer groups for comparison purposes and its targets (such as 60th percentile)? Does it articulate the basis of the organization’s approach to compensation, which may include incentive compensation programs, supplemental benefits, perquisites, and retention devices?
5. Has the committee received independent assurance that deferred compensation arrangements, other benefit programs, and any executive expense reimbursement for items such as automobiles, spousal travel, and country club memberships, are consistent with current IRS rules? Has the committee considered the implications of potential public scrutiny of these reimbursements? Does the committee exercise due diligence by reviewing an audit of executive travel and other expenses to ensure that executives are acting appropriately?
6. Is the organization achieving the rebuttable presumption of reasonableness? Are executive expenses reimbursed based on well-defined policies? Does the committee review the compensation-related elements of Form 990s before they’re submitted?
7. Does the committee report once a year to the full board about the executive compensation philosophy and the CEO’s compensation package? Does the full board feel sufficiently informed to fulfill its fiduciary responsibilities?

Finance Committee/Investment Subcommittee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

The Finance Committee is responsible for recommending financial policies, goals, and budgets that support the mission, values, and strategic goals of the organization. The committee also reviews financial performance and proposes major transactions and programs to the board.

The Finance Committee's specific responsibilities may include:

- Reviewing and recommending a long-range financial plan.
- Reviewing and recommending the annual operating budget and annual capital budget.
- Reviewing and recommending capital expenditures and unbudgeted operating expenditures that exceed management's spending authority.
- Reviewing the financial aspects of major proposed transactions, new programs, and services, as well as proposals to discontinue programs or services.
- Monitoring the financial performance of the organization and its major subsidiary organizations or business lines against approved budgets, long-term trends, and industry benchmarks.

If there is an investment subcommittee, it will recommend policies governing investments and pension plans, approve selection of independent investment advisers and managers, review their reports, and report to the board annually on investment and benefit plan performance.

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

- Finance
- Accounting
- Business
- Investment management
- Executive leadership
- Business ownership

Given the turbulent equity and fixed income markets, hospitals and health systems should evaluate whether they have the proper asset allocation and acceptable investment performance. Many hospitals will need substantial infusions of capital in order to expand programs or retrofit outmoded buildings.

TYPICAL REPORTS AND EDUCATION

- Monthly, quarterly, and annual financial statements
- Investment reports
- Payer trend reports
- Key financial ratios
- Key operating benchmarks
- Financial contributions of physicians by specialty
- Service line profit and loss
- Healthcare reimbursement changes

"I don't think people look sufficiently at divisional or product line profitability to review whether particular aspects of the organization are appropriately meeting their targets," says Joseph G. Beck, managing director of Shattuck Hammond Partners in New York City.

Regarding investments, he adds, investment reports should show how each manager and each category of investments performed versus benchmarks, and whether performance is consistent with the organization's strategic planning horizon.

HOT ISSUES

- Potential impact of payment system reforms, including bundled hospital/physician payments.
- Investment portfolio allocation in a volatile market.
- Debt financing.
- Integrating long-range financial planning and strategic planning, and making adjustments to the financial plan based on operating margins, investment performance, and philanthropy.

Hospitals will face major financial constraints as Medicare and Medicaid reimbursement is squeezed by the federal budget deficit. "In addition, today's recessionary economy may affect patients' ability to access health insurance through employment. Under financial pressure, people will to some extent limit discretionary or elective healthcare use. Moreover, collecting insurance deductibles and co-pays becomes even more challenging," Beck says.

Given the turbulent stock market, hospitals and health systems should evaluate whether they have the proper asset allocation and acceptable investment performance. Many organizations are struggling today with turmoil in the bond markets, and problems with bond insurance companies have raised the cost of borrowing. Many hospitals will need substantial infusions of capital in order to expand or retrofit outmoded buildings.

Finance Committee/Investment Subcommittee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Does the committee develop, review, and update a five-year strategic financial plan and capital plan showing how the hospital will be able to survive, fund needed growth, and access capital from the debt markets? As circumstances change, does the committee review the long-range financial strategic plan to ensure it is still realistic?
2. Does the committee keep its focus on major financial trends and not on operations?
3. Does the committee hold management accountable for explaining the reasons for significant variances from budget as well as for taking corrective actions?
4. Does the committee or a subcommittee oversee major capital projects exceeding a preset threshold (e.g., \$5 million)?
5. Does the committee understand the organization’s debt financing plans, including costs, risks, and options?
6. Does the committee monitor required financial ratios and the organization’s credit rating?
7. Does the committee review reports of the profitability of the organization by clinical products and service lines? Does it understand the risk profile of the institution? Does it evaluate the hospital’s full range of businesses and assets, to determine which assets are underperforming, and which service lines or profit centers are driving the financial returns?
8. Does the committee have independent investment advisers? Does the committee review investment performance at least quarterly and portfolio strategy at least annually?
9. Does the committee understand the role of endowment funds for the future viability of the hospital? Does it closely monitor the rate of spending for endowment funds?

Governance Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

Also called a Committee on Directors, Board Development Committee, or Governance and Nominating Committee, this body is designed to provide for the board's effectiveness and continuing development. Its responsibilities may include:

- Developing and periodically reviewing with the full board a position description detailing responsibilities of and expectations for board members.
- Nominating new board members and officers based on written competencies.
- Leading a succession planning process for the chair and other board leaders.
- Planning new trustee orientation and mentoring.
- Planning board education, including an annual retreat.
- Reviewing the committee structure and making recommendations for needed changes.
- Planning the board self-assessment process and coordinating follow-up.
- Overseeing a process for assessing individual board members' performance, counseling those needing improvement, and recommending individuals for reelection based on positive performance and contribution of needed competencies.
- Periodically reviewing bylaws and board policies and recommending changes to be approved by the full board.

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

- Experience on other boards
- Executive leadership
- Education
- Law
- Human resources/organization development
- Community service

The Governance Committee is responsible for overseeing a process for assessing individual board members' performance, counseling those needing improvement, and recommending individuals for reelection based on positive performance and contribution of needed competencies.

TYPICAL REPORTS AND EDUCATION

- Competency matrix: Profile or matrix of the board's current makeup compared to its list of needed competencies, plus an analysis showing areas to emphasize in recruitment of new members.
- Participation summary: Annual review of average attendance and each director's attendance at board meetings, committee meetings, education sessions, and (if possible) community events.
- Board self-assessment: Report of the full board's self-evaluation survey (every one or two years).
- General counsel's report: Written report or briefing from the general counsel on current legal and regulatory issues affecting governance, plus analysis of whether any changes are needed in board bylaws or policies.

HOT ISSUES

Barry S. Bader, a governance consultant and publisher of *Great Boards*, identifies three contemporary issues for Governance Committees:

- New IRS Form 990. The new IRS Form 990 should be Topic A for Governance Committees this year. It increases disclosure requirements related to community benefit, board practices, conflict of interest, and director independence. Although the new requirements don't take full effect for not-for-profits immediately, Governance Committees may want to ask management to prepare a sample report using the new format with the most current data available.
- Physician competition. Hospital and health system boards have traditionally sought physicians as members, but with an increasing number of doctors who are either employed by the organization or compete directly with it, physician conflicts on the board may be worth close examination.
- Board diversity. In the current political and social environment, it is also important for governing boards to seek increased board diversity in terms of ethnicity and gender, and to develop a plan for diversity related to the specific needs of the community. Finally, as public advocacy becomes a growing role for the board, Governance Committees may want to discuss whether political influence should be a future recruitment criterion when seeking board members.

Governance Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Has the committee developed or recently updated a list of competencies desired from board members? Does the committee make a “gap analysis” to help target recruitment of new members?
2. Has the committee developed a list of potential future board members and board leaders? Does it engage the full board effectively in identifying prospective members?
3. Has the committee developed and implemented a plan to define and if necessary increase board diversity?
4. Does the committee oversee an effective vetting process for prospective members?
5. Does the committee seek board input about topics of interest for board education? Has it developed a plan for board education?
6. Has the committee, in conjunction with general counsel, reviewed the organization’s bylaws and board policies within the last two years?
7. Does the committee oversee an effective process of board self-evaluation and improvement? Has it developed a clear set of expectations for individual directors? Is there a mechanism to provide evaluation and feedback to directors, continuously enhancing their performance? If the committee is not currently offering evaluation and feedback to individual directors, should it consider instituting this process?

Quality Committee/Quality and Professional Affairs Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

Recent research shows that hospital performance on quality is positively affected when the board spends at least a quarter of its time discussing quality. The Quality Committee is an excellent vehicle for candid, confidential discussion of clinical care quality and safety issues.

This committee's responsibilities may include:

- Approving an annual and multi-year strategic quality plan with annual and long-term improvement targets.
- Reviewing performance reports on the quality of clinical care, patient safety, and customer service.
- Reviewing quality/safety-related standards.
- Reviewing sentinel events and root cause analyses.
- Assisting the board in maintaining a collaborative relationship with the medical staff.
- Approving and overseeing medical policies and professional staff appointments, reappointments, and clinical privileges.

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

- Physicians
- Nurses and other health professionals
- Healthcare management professionals
- Executives in industrial quality or customer service
- Attorneys

TYPICAL REPORTS AND EDUCATION

- Dashboard of quality/safety performance indicators.
- Sentinel event report.
- Patient satisfaction and customer experience reports.
- Employee perceptions survey report.
- Assessment of an organizational culture of safety.
- Accreditation reports.
- Audit of credentialing process.

Reports should enable the committee to compare actual performance to organizational goals and industry benchmarks. Data should be presented in a timely, easy-to-evaluate manner, with trend reports for underperforming indicators. Dashboards should display “roll-up measures” relevant to quality, patient safety, and customer service.

If the committee oversees professional affairs and approves physicians' privileges, it should include

evaluation of clinical competence, professional behavior, and compliance with hospital requirements (e.g., malpractice insurance and continuing medical education). The committee should monitor these reports for the small percentage of physicians—usually less than 5 percent—for whom some quality or behavior issue was examined.

In addition, the committee should regularly monitor national priorities in quality and patient safety. “We may face a near future where board members have to, by statute, take a certain number of courses or credits on these subjects, and be tested on the material,” says David B. Nash, MD, MBA, Chairman, Department of Health Policy at Jefferson Medical College in Philadelphia. “If the board is going to make the hospital management and physician staff participate in rigorous education and self-evaluation, then it has an obligation to do so as well.”

“Every board ought to be asking itself, ‘What is our financial risk for poor quality according to CMS?’”

—David B. Nash, MD, MBA, Chairman, Department of Health Policy, Jefferson Medical College

HOT ISSUES

In the future we're likely to see an expansion in the number and types of CMS quality indicators that hospitals are required to report, Nash says. We are likely to see an expansion in the list of “never events” that will not be reimbursed, including sepsis and deep vein thrombosis. “Every board ought to be asking itself, ‘What is our financial risk for poor quality according to CMS?’” Nash says. “This is a key board leadership question that ought to be tackled right now.”

He predicts a substantial increase in pay for performance both locally and nationally from managed care and federal programs. “For example, we are likely to see a greater payment differential attached to the CMS quality indicators. Given the pending bankruptcy of the Medicare trust fund, CMS is going to ratchet up the amount of money at risk, because this will be budget neutral. CMS will pay hospitals less and less overall, but hospitals will receive higher payments if they have good outcomes.”

The Professional Affairs Committee should look closely at physician leadership training. “That means steps such as sending physicians to the American College of Physician Executives or encouraging them to seek a master's degree,” Nash says.

Quality Committee Self-Assessment Questionnaire

Quality and Professional Affairs Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Is the committee satisfied with dashboards and other reports of key quality and patient indicators?
2. Has the committee and the board promulgated a quality vision throughout the organization? Does the committee approve an annual and multi-year strategic quality plan with quantifiable quality-related annual and long-term improvement targets? Does the plan include some goals that are a “stretch” for the organization?
3. Does the committee review performance reports on the quality of clinical care, patient safety, and customer service? When reviewing performance reports, does the committee seek explanations of the root causes of variations? Does it approve and monitor management efforts to improve performance?
4. Has the quality committee chair developed a candid, collaborative working relationship with the primary staff person for the committee, who is often the Chief Medical Officer or the Chief Quality Officer?
5. Has the committee invited a patient who sustained serious harm while in the hospital, and their family, to meet with the committee and describe their experiences? If not, would this be a good idea?
6. Does the committee engage in education on current national priorities in quality and patient safety, such as pay for performance and use of information technology to improve quality and safety?
7. If the committee oversees credentialing, does it receive sufficient information to know that the process is working effectively?
8. Do committee members occasionally accompany staff on patient safety rounds or gain a first-hand perspective of the delivery system in other ways?
9. Does the committee challenge management and physicians to set high enough goals and to accelerate improvement, or is it too deferential and passive when reviewing reports?

Strategic Planning Committee

A Context for Evaluation

TYPICAL COMMITTEE RESPONSIBILITIES

- Review and make recommendations to the board with regard to the organization's mission, vision, strategic plan, and major programs and services.
- Insure that physicians and other key stakeholders are included in the strategic planning process.
- Monitor industry trends, community needs, and internal performance.
- Ensure management has established an effective strategic planning process.
- Help management identify critical strategic issues facing the organization.
- Assist in analysis of alternative strategic options.
- Approve strategic indicators to monitor achievement of strategic performance goals (e.g., market share) and milestones (e.g., open six urgent care centers).
- Approve criteria for management to use in evaluating potential investments.
- Review major new programs and services.
- Monitor implementation of major strategic initiatives.

TYPICAL SKILLS AND BACKGROUNDS OF COMMITTEE MEMBERS

- Strategic thinkers.
- Senior executives from complex organizations with multiple constituencies.
- Current or recently retired healthcare executives from other organizations.
- Senior-level strategic planners from other industries.
- Physicians and other healthcare professionals.

TYPICAL REPORTS AND EDUCATION

- Healthcare trends summary.
- Community health needs assessment.
- Competitor/partner assessment.
- Operational and financial assessments.
- Surveys of community/consumer perceptions, medical staff needs, and patient and employee satisfaction.
- Progress reports on strategic plan implementation.

DO YOU NEED A STRATEGIC PLANNING COMMITTEE?

Should strategic planning be a full board function or the province of a committee responsible to the board? Committee proponents say a Strategic Planning Committee can invest more time to review plans and proposals in depth

than the full board. A committee also can serve as a small, confidential forum to discuss pending strategic issues that are not ready to come before the board. Or conversely, if it's a large committee with many stakeholders around the table, it can be used as a broadly inclusive forum to engage physicians and other stakeholders regarding strategic issues.

A 2007 survey conducted by The Governance Institute found that 52 percent of hospitals and health systems use the full board, rather than a committee, to oversee strategic planning. "We do not often recommend a standing Strategic Planning Committee of the board," says Pamela R. Knecht, president of ACCORD LIMITED, a Chicago-based strategic and governance consulting firm. "The full board needs to be involved in discussions around these very critical strategic issues. Entrusting a small group of board members with this important responsibility may not satisfy increased expectations for transparency and accountability within the not-for-profit sector."

Instead of utilizing a standing committee, Knecht recommends setting up a strategic planning task force to oversee the process of developing or updating the strategic plan. This task force acts as a steering committee to coordinate involvement of the full board, management, and other stakeholders. In addition, Knecht also recommends that the board establish other time-limited task forces to focus on specific strategic issues, such as physician alignment or employment.

HOT ISSUES

Knecht cites these hot strategic issues for the board's attention:

- How will we generate sufficient capital (i.e., by incurring debt, growing revenues, or reducing costs) to afford the program growth, additional facilities, updated information technology, and quality improvement initiatives in our strategic plan?
- Can we continue to provide all present services at all facilities, or do we need to reconfigure service delivery for financial and quality reasons?
- What is our strategy for aligning with physicians?
- What is our strategy to improve our clinical quality leadership, processes, and outcomes?
- How is our information technology strategy, including implementation of the electronic medical record, integrated into our overall strategic plan?
- What is our human resources strategy to ensure a sufficient supply of trained/skilled staff in the future?

Strategic Planning Committee Self-Assessment Questionnaire

General Questions

1. Is the committee charged with doing “the right work?” Does the committee’s charter include a clear, complete description of the committee’s responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are management’s reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should this committee actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Is the meeting frequency and length appropriate? Does the committee have sufficient input into agenda-setting? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

Specific Questions Related to this Committee’s Responsibilities

1. Is the committee working at a true strategy level (major trends, initiatives, and programs) or is it doing management’s work?
 2. Does the committee have a solid understanding of multi-year trends regarding the organization’s performance on key internal indicators regarding finance, operations, and quality?
 3. Does the committee spend sufficient time looking forward three to five years or more, exploring major trends, or is it spending too much time looking in the rearview mirror, analyzing historical data?
 4. Does the committee sufficiently understand the competitive environment and market/community needs?
 5. Does the committee understand the perspectives of key stakeholders including the community, empowered consumers, payers, employees, and physicians?
 6. Does the committee monitor strategic plan implementation on a regular basis? Does it regularly review a dashboard of strategic planning progress indicators?
 7. Does the committee periodically review the results of strategic decisions against its original assumptions to determine if the original projections were met?
 8. Does the committee assess its own performance, including a determination of whether it should approach the decision-making process differently in the future?
 9. Is a Strategic Planning Committee the most appropriate mechanism for this board to carry out its strategic planning functions, or should strategic planning be a responsibility of the full board?
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