

# Trustee Workbook 4

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## The Role of the Chief Governance Officer

The recent economic crisis, coupled with weekly headlines about one company after another demonstrating poor corporate governance choices, led investors and corporate watchdogs to blame boards of directors for less-than-expected company performance. These stakeholders argue that directors were asleep at the wheel and not paying close enough attention to their oversight responsibilities. In response, regulators are regulating and directors are looking for additional ways to demonstrate their accountability and stay out of the crossfire.

How does this scenario relate to hospital trustees, especially nonprofit hospital trustees? The common thread is governance and how the board manages its operations. Hospital trustees should not forget that included in their key responsibilities, along with performance oversight, approving long-term strategy, reviewing the CEO succession plan and overseeing risk and compensation, is determining how the board should function. Effective hospital governance is becoming increasingly important and is evident in the increased scrutiny surrounding such issues as quality processes and patient safety. In addition to uncertainty regarding the economy, health care leaders also must be concerned about the challenges and effects of health care reform. How does the hospital trustee respond?

Public company directors have a not-so-secret weapon that helps them stay focused on their fiduciary obligations

— the corporate secretary or chief governance officer. This individual is an officer of the company and is generally charged with advising directors and management on governance best practices, tracking compliance and disclosure obligations, record-keeping and documenting decisions. While hospital trustees elect officers, including the secretary, the function of this role varies widely. It may be time for trustees to reevaluate the benefits of naming to the hospital's executive staff a chief governance officer whose primary role is to support the governing board.

Trustees are professionals who are dedicated to the hospital's mission, but not usually medical professionals. Trustees bring valuable expertise to management and serve as a sounding board for the CEO. They want to incorporate best practices into their decision-making processes, but struggle with myriad health care laws, insurance reimbursements, Centers for Medicare

& Medicaid Services regulations, and understanding complex organizations and sophisticated medical practices. When you add to this mix the fact that hospital trustees usually have full-time jobs and work on a volunteer basis, the anxiety level rises. The CGO can help trustees more confidently work through the maze and help to build strong boards.

Doctors, nurses, hospital staff and administrative employees walk on a path of continuous improvement every day. They are concerned with healing patients, improving patient safety, discovering research breakthroughs and educating others. Trustees, like outside directors of public companies, have become more sophisticated and ask tougher questions, but are concerned about meeting heightened expectations. They grapple with the privilege of serving their local hospital, the wonder of everyday medical miracles and understanding multifaceted health care facilities, government regulations and governance issues. The CGO can help the board to stay on its own path of continuous improvement and provide continuity and efficiencies for board operations.

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## Questions for Discussion

1. Who is now responsible for supporting the governance function at our hospital?
2. Are staff who support the board dedicated to the governance function or do they also have other key job responsibilities?
3. What support skills does our board need?
4. How does our board stay abreast of governance best practices?
5. When did our board last evaluate its governance practices? Is it time to revisit the processes we use to ensure informed decision-making?

## CORE RESPONSIBILITIES

The primary responsibility for hospital governance must remain with the board of trustees. Strong boards take their fiduciary responsibilities seriously. Trustees join the board because they care about the hospital and want to make a difference. But, it is easy to lose focus. By assuming administrative responsibilities and facilitating the board's governance processes, the CGO helps trustees stay focused on substantive matters and assists in holding the board accountable to stakeholders.

Deciding on the best board governance system for a hospital is a difficult task because no two hospitals have the same structure. It is important that the system used, and the role of the CGO, be molded to fit the unique qualities and culture of each individual hospital. The following description of core responsibilities can be used as a framework to build the right governance system for your hospital.

A good governance system helps trustees to stay strong and adds value in a number of ways. The CGO supports the board and its committees and helps the hospital CEO, senior management and trustees to work together better and serve stakeholders.

**1 Board administrative officer.** The CGO's basic duty is to serve the board and its committees. She is the trustees' link to board operations and administers the information flow to trustees. Trustees need information for

meetings, but also should have easy access to supplementary reports.

**2 Board meetings.** The CGO prepares meeting notices and draft agendas and coordinates the preparation of board materials and presentations. He oversees on-site and off-site arrangements, including travel plans, food and lodging. The CGO attends meetings, takes minutes and distributes drafts in a timely manner.

**3 Committee meetings and staff assistance.** Working with the board chair and the CEO, the CGO determines the work and schedules of board committees. Each board committee requires staff expertise. For example, the hospital's chief financial officer likely will serve as staff to the audit committee, and the chief human resources officer probably will provide staff support to the compensation committee. To ensure efficiency and continuity in presentations and distributions, the CGO coordinates the administrative details of all committee meetings, attends committee meetings and takes minutes.

**4 Assistant to the nominating and governance committees.** As staff to the nominating or governance committee, the CGO is tasked with several special assignments. Examples of typical tasks follow.

**Advising on governance best practices:** Trustees, through the work of the nominating or governance committee, must stay current with trends in the health care industry and with governance best practices. The job of the CGO is to ensure that the board is up-to-date and understands how peers at other hospitals react to new legislation and governance recommendations.

**Trustee succession planning:** Trustees take the lead in overseeing succession planning for the CEO, but sometimes neglect to consider board succession planning. As the hospital's long-term plans evolve, the board may benefit from engaging new individuals with new experiences and expertise. The CGO should maintain a trustee

skills matrix and periodically schedule time with the nominating or governance committee chair to discuss diversity and trustee engagement.

**Trustee recruitment:** The CGO assists in selecting potential trustee candidates by acting as a search liaison and conducting conflict/interlock assessments. The CGO may maintain primary responsibility for developing independence standards for the board and its committees and for monitoring and documenting compliance.

**Committee appointments:** Annually, the makeup of each board committee should be evaluated. Some boards require a rotation of committee responsibilities or committee chairs among all trustees. The CGO assists the nominating or governance committee chair in recommending committee changes when appropriate.

**Governance principles and trustee responsibilities:** The CGO should periodically audit the board's governance guidelines for compliance and consider modifications as necessary. She should also monitor compliance with committee charters, check consistency between documents and actual practice, and periodically corroborate that the governance documents are compatible with the hospital's culture and with best practices. These documents are meant to guide decision-making and should not be relegated to a distant shelf, never to be opened again, once approved. Also, from a risk-management perspective, it is important that the board does what it says it will do.

**Board performance assessments:** The CGO coordinates the board's annual review. Regardless of whether the performance assessment is facilitated by the CGO, the nominating or governance committee chair or a third party, the CGO oversees the administrative procedures. This annual assessment also provides an opportunity to review the board structure and to look for improvement opportunities and ways to further engage trustees.

**Committee performance assessment:** The annual committee review is an ideal time to consider the effectiveness of board committees, ask if new

committees should be added or dissolved and if additional skills would be beneficial.

**Trustee orientation and ongoing education:** The CGO will help trustees understand how the hospital works by developing a fulsome orientation program and ongoing education programs. While every trustee meeting is essentially educational, some organizations set aside time at each meeting for education topics or allow time for dinners the evening before the board meeting so that trustees can meet members of management that might not otherwise be included in the meetings. Some boards plan retreats that include outside speakers or offer trustees the opportunity to participate in third-party education programs.

**Governance updates:** The CGO should consider writing quarterly updates for the board on legal and legislative actions, hospital trends, issues and governance best practices.

**5 Shared responsibilities.** The CGO provides services to a diversity of constituents, both inside and outside the hospital. He must address the needs of the chairman, the CEO, the trustees as a board and individually, hospital officers, employees and regulatory agencies. Because of his close contact and involvement with the board of trustees, the CGO likely will share many trustee-related responsibilities with other senior managers. Examples follow.

**Chief legal officer:** The hospital's chief legal officer is responsible for responding to lawsuits and various other legal proceedings. The CGO will distribute lawsuits and subpoenas, as appropriate, to trustees as well as coordinate special board or committee meetings and provide periodic status updates, if not provided directly by legal counsel. If the CLO is responsible for overseeing the hospital's commitment to the kinds of coordinated, patient-centered and accountable care environments envisioned by the ACO program, the CGO may add valuable governance support and will ensure trustees have the information they need to carry out their

oversight responsibilities.

**Chief financial officer:** The CGO and CFO should cooperate and share information on strategic and tactical actions being contemplated by hospital management. Many of these matters will require governance actions such as board discussion or resolutions. For example, the CGO often is tasked with monitoring the hospital's delegation of authority guidelines; that is, the rules that are established to identify the approvals necessary to obtain before financial obligations are made on behalf of the hospital.

**Chief human resources officer:** The CEO performance evaluation, including compensation levels, and succession planning are key responsibilities of the board. The CGO, working with the chief human resources officer and the board's compensation committee, coordinates the performance of these obligations.

**Chief communications officer.** Trustees must be good promoters of the hospital, whether it be advocating with legislators or talking with other influencers. The CGO establishes and manages the board's many relationships with stakeholders. The hospital's head of marketing or communications will be an influential partner.

**Chief medical officer.** The CGO works with the chief medical officer to establish the appropriate governance structure for various clinical enterprises and to properly educate trustees on medical matters.

**6 Chief compliance officer.** If the hospital's chief financial or legal officer does not also serve as the chief compliance officer, this responsibility often falls to the CGO, who coordinates the hospital's compliance and enterprise risk management programs. To help trustees better understand key risks and mitigation efforts, the CGO may prepare quarterly board reports that summarize risk activity plans and identify probabilities of occurrence.

**7 Chief ethics officer.** The CGO may serve as the hospital's chief ethics officer. In this capacity she ad-

ministers the hospital's code of conduct for employees and its hotline. Some hospitals may ask trustees to sign off on the employee code of conduct while others may have a separate code.

**8 Fundraising.** If the hospital does not have a separate fundraising (foundation) board, trustees may also serve as a critical fundraising mechanism. In this case, the CGO would likely be tasked with coordinating the support of the trustees in the hospital's fundraising efforts. Additionally, with the assistance of the hospital's public affairs department, the CGO may organize the trustees' advocacy efforts with local, state and national legislatures.

**9 Board-management liaison.** Trustees expect to have questions answered quickly and are entitled to a one-stop, go-to reference source. Ease of access to a CGO helps keep trustees engaged, and engaged boards add value to the hospital in significant ways. An informed board is a more productive advocate, adds value to strategy discussions, provides helpful direction for management, and ensures a thorough analysis of decisions that helps to create a culture of transparency.

**10 Record-keeper.** The CGO maintains official minutes books and for a certain time period (in accordance with the hospital's retention policy) maintains the official copy of meeting materials. Included in the minutes books are such documents as hospital bylaws, governance guidelines and committee charters.

**11 Subsidiaries and corporate administration.** If the hospital is not a stand-alone facility, the CGO oversees the board functions and record-keeping for subsidiary organizations.

**12 Insurance.** The CGO provides summary materials to officers and directors regarding director and officer insurance and indemnification arrangements and periodically re-

views these policies with the board of trustees.

### Questions for Discussion

1. How are the governance functions described previously conducted at our hospital?
2. Are any of these functions or activities not being performed?
3. How are shared governance responsibilities coordinated among the hospital's senior executives and the board?
4. Are there areas where the board needs greater support?

### CORE COMPETENCIES

To be effective in his support of trustee activities, the CGO must have a good information base. He must understand corporate governance issues, emerging hospital trends, stakeholder expectations, the hospital structure and the structures of competing institutions. The role of the CGO is evolving, and its core competencies will depend on the structure of the office and the hospital,

jobs she performs for multiple bosses, the CGO must be flexible. And, because she works with the board both as a group and with individual personalities, she must be humble in the "care and feeding" of trustees.

**Honesty and integrity.** The ability to speak honestly to the chairman, the CEO and each of the trustees and officers is paramount. For a respected CGO with integrity, this will be natural, although, at times, it still will take courage.

### KEEPING GOVERNANCE ON TRACK

Many hospitals have not yet made the leap to making one person responsible for these activities. Instead, hospitals often ask key managers to supplement their core day jobs (such as legal, finance, human resources) with portions of these activities. We've heard the axiom that systems fail before individuals fail. If someone is not held accountable for understanding and monitoring the system, are we setting up the hospital's

nuity and convenience for trustees. It helps them to be better at doing their jobs. The CGO does not make money for the hospital, but any amount of time he is able to save, any mistakes or regulatory infractions that he helps to avoid, are monetary contributions to the financial statements. It is the CGO's job to be sure there is a governance system in place, that it works effectively and enables trustees and executives to be better prepared to help the hospital carry out its mission.

One word of caution: When implementing the foregoing model, trustees must be careful not to overstep their bounds and start dabbling in the daily operations of the hospital. That is management's role. The trustees' role is one of monitoring and oversight. The CGO structure can be an invaluable tool for trustees, but it should not be used as a catalyst for stepping into management's role nor should it be used as an excuse for trustees not to do their homework, to be prepared for meetings or to ask meaningful questions.

*The CGO position offers continuity and convenience for trustees. It helps them to be better at doing their jobs.*

but likely will include the following characteristics.

**Knowledge:** To help the board, the CGO must understand the inner workings of the hospital, the board and the culture of both.

**Accounting and legal:** An understanding of finance and accounting is helpful, especially in light of the CGO's close working relationship with the hospital's chief financial officer. A background in legal practice, whether in corporate matters, litigation or risk management, also is useful.

**Interpersonal skills.** More so than any other officer of the hospital except the CEO, the CGO must be an enthusiastic advocate for the hospital while being equally skilled in diplomacy. The CGO must work effectively with diverse groups of people.

**Flexibility.** Because of the diversity of

governance system to fail? The board is responsible for its own processes and operations, but when trustees have their own day jobs, someone needs to assist with monitoring results and progress so that the board can stay on a path of continuous improvement. Giving responsibility to the chief governance officer is one way to enhance board accountability and trustee performance.

The hospital chief governance officer is a valuable resource, an assistant and advisor to the board. He will provide a host of services ranging from substantive to administrative, but it is the CGO's good judgment and unique perspective on the inner and outer workings of the hospital that will be the most beneficial contribution to the hospital. The CGO position, if developed within the framework described, offers conti-

### CONCLUSION

In September 2010, the New York Stock Exchange released a list of 10 core governance principles. Its first finding is that "the board's fundamental objective should be to build long-term sustainable growth in shareholder value for the corporation, and the board is accountable to shareholders for its performance in achieving this objective."

At hospitals, we might interpret this to read, "the board's fundamental objective should be to build long-term sustainable improvement in how we care for patients, and the board is accountable to all stakeholders for its performance in achieving this objective." It is the job of the chief governance officer to guide hospital trustees as they strive to achieve this objective and stay on a path of continuous improvement. **T**

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