

# GOVERNANCE & ORGANIZATIONAL SKILLS

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# US HOSPITALS BY YEAR AND CATEGORY

	2005 total	2014 total	2019 total	% change	Staffed Beds	Total Admissions	Total Expenses
Government, federal	229	210	208	-1%			
Government, nonfederal	1435	1294	972	-24%			
Not-for-profit	3204	3118	2968	-4.8%			
For-profit	1480	1661	1322	-19.8%			
Total Community Hospitals	4684	4779	6210	+30.0%	931,203	33.4 million	\$9.6 billion
Rural Community			1875				
Urban Community			3387				

**Source: 2005, 2014 & 2019 American Hospital Association**

# DIFFERENTIATING ORGANIZATIONAL TYPE

## For Profit:

- Profit is returned to owner/investors
- Net Margin (income from operations) 10-15%


## Non Profit (Private):

- “Profit” is invested into the organization
- Net Margin 4-6%

## Non Profit (Public):

- Usually subsidized by governmental funds
  - Net Margin 0-4%
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# THE GOVERNING BOARD

- Actions governed by prudence and reasonableness
  - Provide advice, counsel and feedback to CEO
  - Aligned with wishes of owners
  - Responsible for decisions and consequences
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# PRINCIPLES OF CORPORATE GOVERNANCE

- **Accountability**
  - **Discipline**
  - **Fairness**
  - **Independence**
  - **Transparency**
  - **Responsibility**
  - **Social responsibility**
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# BOARD OF DIRECTORS' OBLIGATIONS

- Duty of Care
  - Duty of Loyalty
  - Duty of Disclosure
  - Business Judgment Rule
  - Confidentiality
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# DUTY OF CARE

- Directors exercise appropriate diligence in good faith to becoming informed in making decisions and overseeing management

## Actions

- Attend and actively participate in meetings
- Require management to provide adequate reports concerning the facility's operation
- Diligently inquire about any potential problems they see that could arise

# DUTY OF LOYALTY

- A director's conduct be in the best interest of the organization

## Actions

- Disclose conflicts of interest
- Reveal any related business opportunities



# BUSINESS JUDGMENT RULE

- Protects a disinterested director from personal liability if the decision which the director approved is a mistake
- Presumes the director acted in an informed and good faith basis
- Presumes the director firmly believed the decision was best of the organization

# INTERMEDIATE SANCTIONS

- Intermediate sanctions are brought when transactions involve “disqualified persons” or an individual who is in position to exercise substantial influence over the organization.
- IRS imposes excise tax on excess benefit transition between disqualified person and a nonprofit organization
- Intermediate sanctions have caused directors to be liable for their actions
- Organization management can also be liable for an excise tax on excess benefit transaction
- Nonprofit directors can cause organizations to lose non-profit status

# DUTY OF DISCLOSURE

- Directors inform fellow directors and management of information known to the director that is material to corporate decisions.

# CONFLICTS OF INTEREST

- Annually sign conflict statement
- Recuse themselves from any decision in which they are conflicted
- Hold others accountable for conflicts
- Be “purer than Caesar’s wife”

# BOARD MEMBER ORIENTATION & CONTINUING EDUCATION

## Management

- Provide comprehensive orientation for board members
- Continuing education of board members


## Board Member

- Learning about health care particularly quality and financing
- Assessing knowledge gaps

# RESPONSIBILITIES OF GOVERNING BOARD

- Envisioning and formulating the organization's mission, vision, goals and strategy
- Select, encourage, advise, evaluate and if needed, replace CEO.
- Ensuring organization's quality of service and operating efficiency
- Ensuring organization's financial health
- Assuming responsibility for itself

# BOARD'S PRIMARY DUTIES

- Select, compensate and evaluate CEO
  - Establish the mission and vision
  - Approve long-range plans and budget
  - Assure social responsibility
  - Monitor performance against plans and budgets
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# CEO SUCCESSION PLAN

- Should be a top priority of boards
- Board-driven collaborative process
- Involves identifying and developing several managers
- Assures key stakeholders of leadership continuity





# BOARD RETREAT

- Review mission, vision and values of the organization
  - Review strategic plan and progress on plan
  - Provide governance education
  - Evaluate board performance
  - Understand board's role in advocacy
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# BOARD COMPOSITION

- Limited board size
- Inclusion of top executives
- Rotating medical staff leadership
- Outside members



# BOARD MEMBERS AS RESOURCE CONTRIBUTORS

- As influential
- As figureheads and donors
- As specialists



# COMMON BOARD COMMITTEES

## Executive Committee

- Made up of officers, handles issues such as CEO appraisal and compensation
- May make decisions on its own with large boards

## Strategic Planning Committee

- Program and building planning
- Strategic plans are usually 3-5 years
- Monitor progress on plan

## Finance Committee

- Budget review, approval of financing mechanisms, investment philosophy

## Quality Committee

- Analyze internal quality of care data and compare to benchmarks


## Audit Committee

- Work with outside auditors to ensure accuracy of financial statements

## Governance Committee (Nominating or ByLaws)

- Recruiting, training, continuing education and self evaluation

# EFFECTIVE & INDEPENDENT BOARD

- Appropriate balance of independent directors
  - Effective mechanism, appropriate competence, adequate experience
  - Sufficient information
  - Validate and approve strategy and operation of business
  - Ensure personal skills are aligned with needs of company and evolving regulations
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# NONPROFIT VS FOR-PROFIT BOARD

## Representative Board

- Community Driven
- Large
- Many committees
- Service ethic
- Slow decision making
- Low board turnover
- 10-12 board meetings annually
- 2-3 hour board meetings
- Lacking in health care experience

## Enterprise Board

- Industry driven
- Small
- Few committees
- Service and business ethic
- Rapid decision making
- Rapid board turnover
- 4-6 board meetings annually
- 6-7 hour board meetings
- Health industry well represented

# **BOARD MEMBER CHARACTERISTICS**

## **Representative Board**

- Trustee**
- Conservator**
- Unpaid**
- Attends more meetings**
- Concerned with fundraising**
- Lack full understanding of industry complexity**
- Inability to evaluate quality of care**

## **Enterprise Board**

- Director**
- Risk taker**
- Paid**
- Attends fewer meetings**
- Concerned with revenue**
- Appreciates industry complexity**
- Ability to evaluate quality of care**

# **AGENCY THEORY**

**Principal-agent relationship (*Eisenhardt, 1985*)**

## **Assumptions**

- Self interest
- Information asymmetries
- Risk aversion


**Moral hazard**

**Adverse selection**







# ROLE OF BOARD CHAIR

- Organize and present agenda
  - Ensure proper flow of information to board
  - Ensure adequate lead-time for effective study of business under consideration
  - Acts as liaison between board and CEO
  - Represents with CEO the organization to external groups
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# ROLE OF CEO

- Run the company and ensure it meets strategic, business, operating and financial objectives
  - Ensure effective management team in place
  - Ensure company achieves satisfactory position in market
  - Develop and recommend long-term strategy and vision to board
  - Develop and recommend annual business plans and budgets
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# WHY BOARDS MICRO-MANAGE

- No job descriptions
  - Specialized knowledge
  - Directors have special interests
  - Pride and emotional connection
  - No effective orientation program
  - Board will manage when given management information
  - Crisis arises
  - Management ineffective
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# KEY POINTS

- Board members need to be engaged in setting MVV for organization
- Board members are responsible for ensuring quality, operating efficiency and financial health
- Boards select, encourage, advise, evaluate and if needed, replace CEO
- Board members need to disclose conflicts of interest, be loyal to the organization and be informed about decisions made
- Board members need to have continuing education to be effective in evaluating quality and financial health
- With large boards, work is often done in committees and reported to full board for approval

**Questions?**