

GOVERNANCE & ORGANIZATIONAL SKILLS

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This prep course is a key part of my preparation for the Board of Governors exam

Strongly agree

Agree

Disagree

Strongly disagree

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



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**

One basic criterion for healthcare governing boards is:

All members agree to receive care at the the governed organization

Board members provide a specified amount of financial support

The actions of the board are reasonable and prudent

The board must meet a minimum of two times each year

Governing boards are typically more effective at what size?

10 to 15 members

15 to 25 members

5 to 10 members

More than 25 members

BOARD OF DIRECTORS' OBLIGATIONS


- Duty of Care
- Duty of Loyalty
- Duty of Disclosure
- Business Judgment Rule
- Confidentiality



DUTY OF CARE

- Exercise appropriate diligence in good faith 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
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DUTY OF LOYALTY

- Conduct will be in the best interest of the organization

Actions

- Disclose conflicts of interest
- Reveal any related business opportunities



BUSINESS JUDGMENT RULE

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



DUTY OF DISCLOSURE

- 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”



The generally recognized standards of conduct that board members must follow are:

Duty to attend meetings; duty to be objective; and duty to be properly prepared for meetings

Duty to be financially responsible; duty to read the annual reports; and duty to avoid conflicts of interest

Duty of care; duty of loyalty; and duty of obedience

All of the above

None of the above

A HC exec is serving on the board of a community mental health ctr. The ctr board is evaluating proposals for inpatient psych services received from the executive's as well as other orgs. The exec should:


Participate in the discussion and the vote if the benefits to the community outweigh possible conflicts of interest **A**

Not participate in the discussion or the vote **B**

Declare a potential conflict of interest and excuse him/herself from participating in both the discussion and the vote **C**

Participate in the discussion but not vote on the proposals **D**

RESPONSIBILITIES OF GOVERNING BOARD

- Envisioning and formulating the organization's mission, vision, goals and strategy
 - Selecting, encouraging, advising, evaluating and if needed, replacing CEO
 - Ensuring organization's quality of service and operating efficiency
 - Ensuring organization's financial health
 - Assuming responsibility for itself
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BOARD COMPOSITION

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



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




BOARD DEVELOPMENT

- 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



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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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 By Laws)

- Recruiting, training, continuing education and self evaluation



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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Which of the following activities should be performed by the Board of Directors?


Calculating
patient care fees

Determining
staff patterns


Recruiting new
medical staff

Hiring the CEO


10 MEASURES OF BOARD EFFECTIVENESS

- Meeting legal requirements
 - Compliance mentality
 - Continuing governance education
 - Use of dashboards
 - Agenda practice
 - Conflicts of interest
 - Nominating committee
 - Voluntary Sarbanes-Oxley compliance
 - CEO evaluation
 - Board planning and evaluation
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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
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Questions?

