


Hospital Association
Annual Convention & Trade Show

**Board Development &
Collaboration Between Boards**

3:45-5:15 pm
Thursday, September 22, 2011

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Overview of Today's Presentation

- Trends in Board governance
- Characteristics of effective Boards
- Dealing with the “inevitable”
- Optimizing the relationship between the Hospital/Foundation Board

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Trends in Board governance

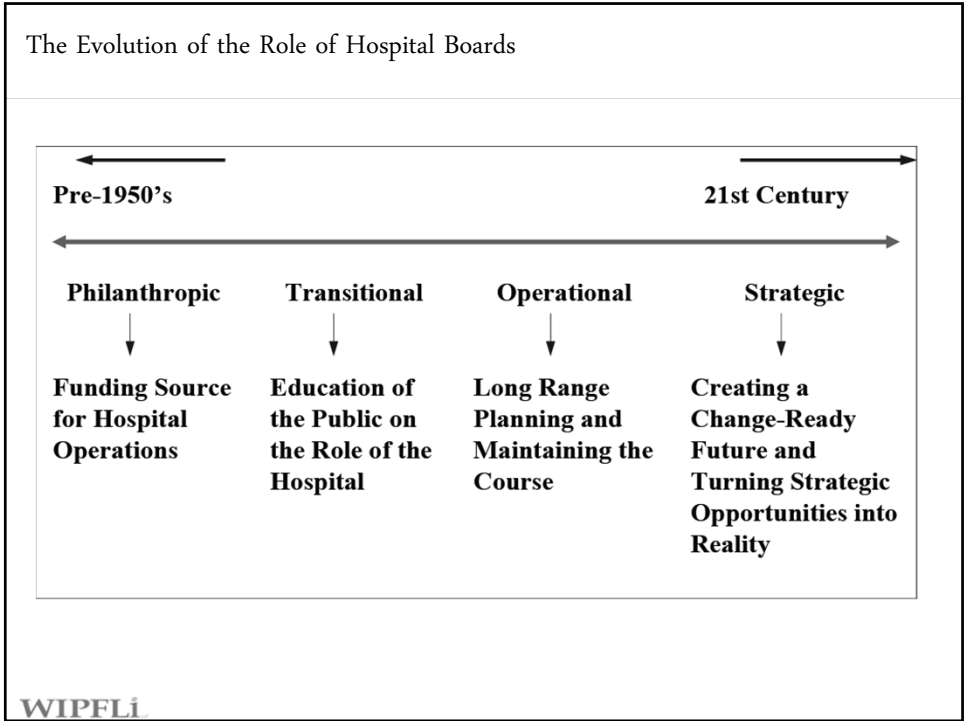
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Traditional Role of Hospital Boards

- Comprised of local businesspeople & professionals
- Directors raised charitable donations (no Foundation Board)
- Encouraged volunteer participation in hospital life, and
- Light oversight of management that was lean and uncomplicated by today's standards

**The Hospital was more charity than
business**

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It Used to be Simpler. . .

- Community residents believed the hospital was in a very real sense “theirs”
- Medicine was genuinely simpler, requiring less in the way of expensive equipment and specialized technical personnel
- Minimal legal counsel – an attorney serving on the board was sufficient
- Care was relatively cheap and structures of reimbursement were rudimentary (frequently involving patient self-payment)

TODAY

Boards are responsible for not only the fiscal responsibility of the hospital, but also the quality and cost of care.

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Healthcare Reform: New Committee Responsibilities

- Finance Committee
 - ✓ Evaluate the impact of changes in federal/private reimbursement
 - ✓ Evaluate new operating models (physician integration, ACO, and medical homes) to position the hospital toward improved quality of care and cost
- Governance Committee
 - ✓ Nomination - ensure the proper mix of committees and the right qualifications for new directors
 - ✓ Executive Compensation - new models of compensation to incentivize management to achieve new healthcare reform goals
- Audit Committee
 - ✓ Establishing policies to monitor compliance with new supplemental requirements for 501(c)(3) tax-exempt status for hospitals
- Quality Committee
 - ✓ Focus on new challenges of clinical processes and outcomes, patient care and utilization
 - ✓ Compliance - new antifraud provisions in legislation and government enforcement with emphasis on eliminating Medicare/Medicaid fraud and abuse

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Moody's Suggestions to Successful Hospitals Boards and Management

- Training of middle management and future leaders
- Increased benchmarking of best practices
- Increased board education on reform
- More judicious use and oversight of external consultants
- Scrutiny of debt structure, bank agreements and financing plans
- Contingency planning, including cost reduction strategies that can be implemented quickly
- Consideration of a capital or merger partner, even if current financial performance is stable
- Assessment of growing scrutiny over tax-exemption
- Increased staffing in the finance and IT department
- Movement of physicians into leadership position

Source: Moody's: Transforming Not-for-Profit
the Era of Reform

Healthcare in

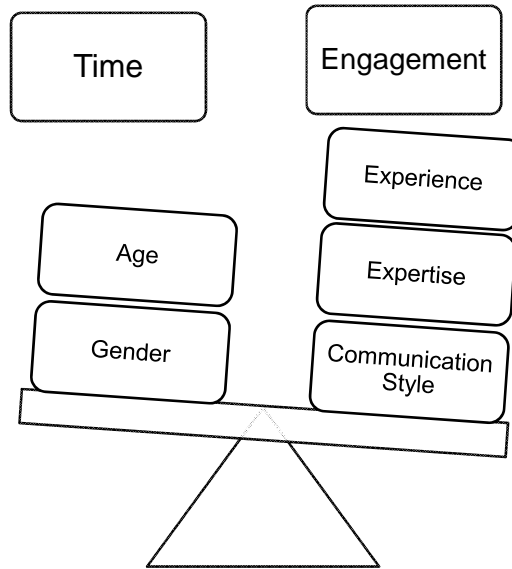
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Trends in Board Structure

- Number depends on the type of board
 - ✓ City or County owned facilities represent unique challenges
 - ✓ Commitment is more important than number
- Education packet and mandatory attendance at education session(s)
- Signature on rules of engagement
- CEO as member or exofficio (?)

Board Member Characteristics

Balance on the Hospital Board is Important



Board Committees

- Committees vs. Task Forces
- Committee Involvement
 - ✓ Every board member should serve on at least one but preferably no more than 2 committees or task forces
 - ✓ Members are appointed by the chair in consultation with the Governance Committee
 - ✓ Make committee assignments based on the experience, skills, interests, and available time of board members.
 - ✓ Can include people who are not board members



Hospital Board Summary Characteristics

Composition

- ✓ 8-20 members *
- ✓ 60% community members
- ✓ At least 1 preferably 2 members also on Foundation board
- ✓ 1-2 physicians
- ✓ At least 1 other provider
- ✓ CEO (?) as ex-officio

Terms

- ✓ 3 year term minimum
- ✓ Maximum term limit of 3
- ✓ Terms are staggered for continuity
- ✓ Public announcement of openings

Characteristics of Board Members

- + Diverse experience/capabilities beyond hospital including:
 - Health care quality and delivery
 - Financial and accounting
 - Legal
 - Patient advocacy
- + Should include community members, physicians, employees, and patients.



Foundation Board Summary Characteristics

Foundation	Characteristics of Board Members
<ul style="list-style-type: none"> ✓ No limit on size ✓ At least 1 preferably 2 members also on hospital board ✓ Retired or near retirement physician ✓ Core (active) members with other less active or new members <p style="text-align: center;"><u>Terms</u></p> <ul style="list-style-type: none"> ✓ No term limits ✓ Life trustee status for long term service (often for long term hospital board members) 	<ul style="list-style-type: none"> + Expertise in: <ul style="list-style-type: none"> • Financial management/investment • Marketing / Public relations + Well connected and/or respected in community + Demonstrated interest/commitment to community or hospital + Potential for charitable giving + Ability to commit significant time

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Board Relationship with Management

The Board is responsible for the management/CEO and must

- Foster open communication and acceptance of accountability
- Maintain routine contact and shared understanding with medical staff
- Ensure hospital-physician alignment is pursued in a fair, consistent and transparent manner
- Pursue active engagement in CEO succession planning
- Consider how the metrics of healthcare reform become part of the CEO evaluation and compensation process

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Best Board Characteristics: Lessons for the Chair/CEO

1. Play to the Board members' strengths
2. Over-communicate, but realize this may be a one-way communication.
3. Separate problems/issues
4. Don't forget to communicate as much good news as possible
5. Make sure board members know what you want from them

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Dealing with the Inevitable

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Conflict of Interest

- It will happen and it can be ok
- Written policy a must
- What to do
 - ✓ Leave room
 - ✓ Listen, but not vote
 - ✓ Leave of absence from Board

Examples

- ✓ Developer responsible for the management of the hospital's construction project
- ✓ Bank loans or other transactions with financial institutions that have business ties to a board member
- ✓ Utilizing legal services from a firm affiliated with an attorney board member
- ✓ Physician board member with a partial ownership in a competing business (e.g., ambulatory surgery center or lab)

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Attendance

- Have an attendance policy and include attendance requirements in the board member description
 - ✓ Include a clause for evaluating attendance at re-election
 - ✓ Allow a provision for exceptions based on Board vote
 - ✓ Include attendance at educational sessions
- Supersedes the need for term limits
- Reason for dismissal
- Telephone or "skype" participation limits

Example: Attendance Policy

- New England hospital: Absence from more than 60% board meetings over their term or absence from three consecutive board meetings, was "equivalent to resignation"
- California board capped absences at 25 percent.

Ensure that attendance is not reflective of an individual's behavior

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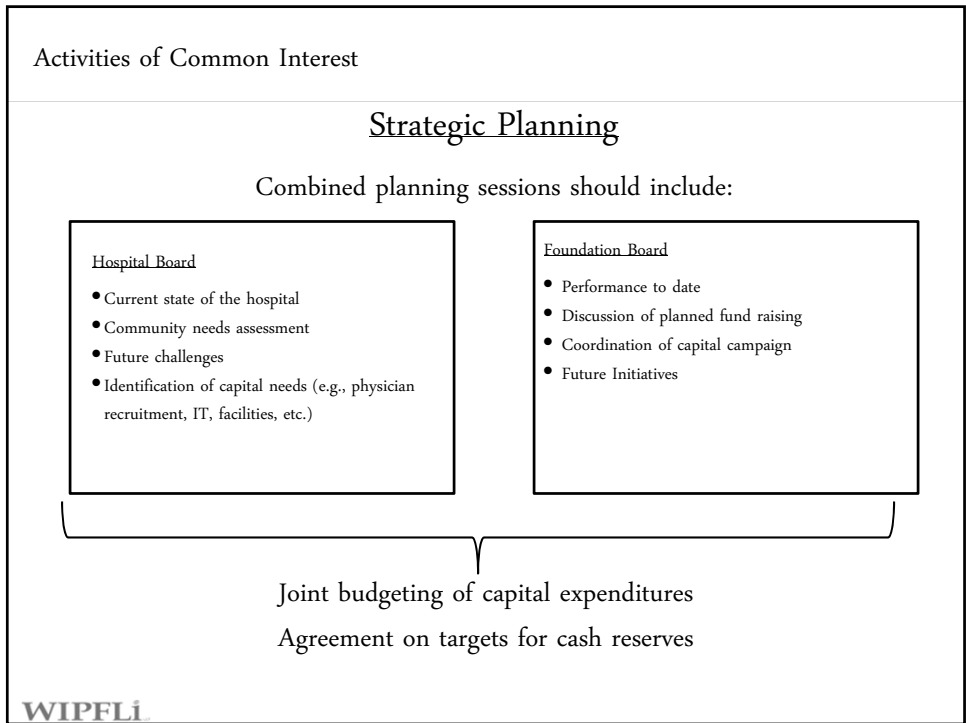
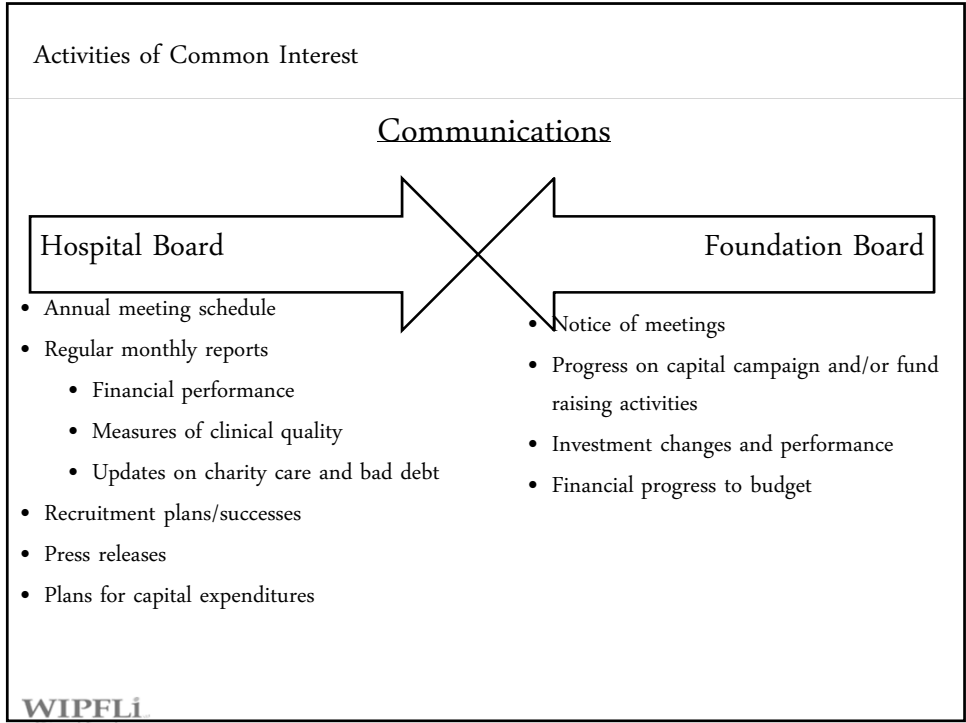
Unruly Behavior

- Robert's Rules of Order vs. Common Sense
- Long-term the best solution is:
 - ✓ Systematic recruitment
 - ✓ Careful selection, and
 - ✓ On-going development /education of board members
- Get help, can be a touchy situation, make an objective consultant the "bad guy"

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**Optimizing the Relationship between the Hospital and
Foundation Boards**

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Activities of Common Interest

Asset Management

- Cash reserves
 - ✓ Restricted and otherwise
 - ✓ Hospital and Foundation uses
- Investment portfolio
 - ✓ Where to “park” the money
 - ✓ Reimbursement impact and organizational structure
- Debt payoff and debt issuance
- Have an investment and debt policy

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Contact Information

For further questions and comments:

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