PRACTICES FOR HIGH-PERFORMING HEALTH SYSTEM BOARDS

PART 2 OF 3 IN SERIES
This paper is the second in a series of three discussing sensible behaviors needed among the members of health sector boards in US hospitals and health systems. These governing bodies could oversee the board work of a variety of hospitals, integrated health systems, or philanthropic foundations.

Our client engagements encourage leaders of governing bodies to master and apply board work that is SMART:

- **stakeholder engaged**
- **mission driven**
- **accountability expected**
- **resource mobilized**
- **transparency enabled**

This list of 50 board behaviors has been drawn from 10 years of client experiences and publications by The Governance Institute and the AHA’s Center for Healthcare Governance.

This list is not intended to be exhaustive; there may be other important behaviors or actions not included here. However, effort was made to highlight and identify key actions for hospital and health system boards in their primary areas of concern. For this reason, the list is divided into six categories—a board’s three fiduciary duties and its six core responsibilities.

**INTRODUCTION**

**CONTENTS**

**FIDUCIARY DUTIES**
- Duty of Care
- Duty of Loyalty
- Duty of Obedience

**CORE RESPONSIBILITIES**
- Financial Oversight
- Quality Oversight
- Setting Strategic Direction
- Board Self-Assessment and Development
- Management Oversight
- Advocacy

The three part series includes:

- **50 Street Smart Behaviors for Great Board Work**
- **50 Practices for High-Performing Health System Boards**
- **50 Practices for High-Performing Medical Group Boards**
FIDUCIARY DUTIES

Under the laws of most states, directors and trustees of not-for-profit corporations are responsible for the vitality and sustainability of the corporation; meaning directors must supervise and direct its officers and govern the organization’s efforts in carrying out its charitable mission. The duties of care, loyalty, and obedience describe the manner in which the directors are required to carry out their fundamental duty of oversight\(^1\) to advance its mission. As you review these 50 important initiatives, reflect on the degree to which you and your current governing body are achieving each SMART behavior.

Duty of Care

1. All board members receive an orientation on the duties of care, loyalty, and obedience to the charitable purpose of the hospital or organization.

2. The board regularly reviews policies that specify the board’s major oversight responsibilities.

3. The board routinely seeks the advice of independent, outside experts when evaluating its performance.

4. Before approving major projects and transactions, the board or a committee of the board consistently reviews supporting documentation of financial feasibility and considers adherence to the mission.

5. Important background materials are always or nearly always provided to the board and committees at least one week in advance.

\(^1\) For a comprehensive interactive reference book on smart principles and practices of health sector governing bodies, see www.leaderswhogovern.org.
The board regularly monitors organizational performance against both board-approved goals and industry benchmarks (where available) for finance, quality, customer service, and business strategy.

**Duty of Loyalty**

All board members receive a detailed orientation and educational updates on the obligations associated with the duty of loyalty.

The board regularly reviews policies and procedures pertaining to conflicts of interest.

The board enforces a strict policy on confidentiality that requires board members to refrain from discussing board matters with non-board members.

Board members who knowingly violate conflict-of-interest and confidentiality policies are subject to removal from the board.

Board members are required to complete and sign a conflict-of-interest/disclosure statement annually.

The “Duty of Loyalty” requires board members to discharge their duties unselfishly, in a manner designed to benefit only the corporate enterprise and not the board members personally. It incorporates a responsibility to disclose situations that may present a potential for conflict with the hospital or health system’s mission, as well as a duty to avoid competition with the organization.
Duty of Obedience

12
The board takes identifiable steps, such as a mission integration assessment, to ensure that the organization’s mission and core values are followed throughout the enterprise.

13
The board reviews the mission before or during most board meetings.

14
Before making major decisions, the board considers the impact of the decisions on the mission and rejects proposals that put it at risk.

15
The board or a board committee routinely reviews compensation for executives, board members (if applicable), and physician leaders (medical directorships, etc.) to ensure appropriateness and alignment with statutory and regulatory guidelines.

16
A system is in place to measure the resources used in support of the organization’s charitable mission.

The “Duty of Obedience” requires board members to ensure that the organization’s decisions and activities adhere to its fundamental corporate purpose and charitable mission, as stated in its articles of incorporation and bylaws.
A governing board, whether a hospital board or a health system board, must fulfill certain core or fundamental responsibilities in overseeing the efforts of the organization. These responsibilities cluster around six major areas:

1. Finance
2. Quality
3. Strategy
4. Self-evaluation
5. Management oversight
6. Advocacy

Financial Oversight

All board members receive ongoing education on the financial management and health of the organization.

The board approves long-range and annual capital and financial plans, and monitors results achieved against those plans.

The board demands corrective actions in response to under-performance on long-range and annual capital and financial plans.
The board requires that the strategic, quality, and master facilities plans are integrated with the financial plan.

The board and/or a board committee responsible for audit oversight meet independently with the external auditor at least annually.

The board and/or a board committee responsible for audit oversight have the sole authority to select the external auditor and to authorize independent reviews performed by another party if required.

The board understands its options with respect to acquiring debt and, if applicable, participates in the bond issuance process.

Quality Oversight

The board routinely reviews a performance “dashboard” or “balanced scorecard” with the critical quality indicators that highlights significant trends and variances requiring celebration, corrective action, or follow-up reports.

The board annually participates in educational opportunities for board member education regarding its quality responsibilities and performance imperatives.

Quality in an era of population health management integrates: clinical quality, patient safety, consumer service excellence, and access to services by vulnerable and marginalized populations.
Proposed program/service additions or enhancements are required to meet specific quality-related performance criteria (for example, volume requirements and effective staffing levels).

The board includes quality-related goals in the incentive compensation plan for senior executives.

The board and/or board credentialing committee occasionally reject recommendations from the medical executive committee for appointment or reappointment of physicians to the medical staff.

Setting Strategic Direction

The board is actively involved in establishing the organization's strategic direction, including setting priorities and approving the strategic plan to improve not just health care, but also healthy gain.

The board discusses the needs of all key stakeholders served by the institution when setting the long-range direction for the organization. Stakeholders exist in all dimensions of the social determinants of health defined by the World Health Organization.

The board has adopted policies and procedures that define how strategic plans are developed and updated (e.g., who is to be involved, time frames, role of the board, management, physicians, and allied health staff).
32
The board has adopted criteria for evaluating proposed new programs and services to assess key factors (e.g. financial feasibility, market potential, impact on quality and patient safety, etc.).

33
Before approving a major strategic project, the board requires that plans are specific and measurable (where appropriate), with implementation accountabilities clearly identified.

Board Self-Assessment and Development

34
An annual board self-assessment and goal-setting process are treated as top priorities by all board members and senior executives.

35
The board has a committee that routinely assesses the organization’s bylaws and recommends areas for improvement/best practices in structure, composition, and performance.

36
The board maintains and updates policy statements regarding roles, responsibilities, duties, and job descriptions for itself, its members, officers, and committees.

37
The board has adopted written criteria specifying the areas of knowledge, skills, and perspectives needed on the board.
38
The board has established a mechanism to evaluate the performance of individual members.

39
The board has a formal program for its own orientation and ongoing education.

40
The board develops an annual board education plan, and this plan is reflected in the organization’s budget for board activities/support.

Management Oversight

41
The board has adopted a written policy statement that formally establishes and/or details a process for setting the CEO’s goals.

42
The CEO has written performance goals that are mutually agreed upon with the board prior to the evaluation period, and the board commits to invest in supporting key executives’ competency enhancements.

43
The CEO evaluation process includes a private session between the CEO and the board chair/evaluation committee to discuss the evaluation and to define the next year’s goals.
Understand the health issues of the many communities served, and the many strategic partnerships needed to achieve enhanced population health.

44

The CEO's incentive compensation is based largely on the CEO performance evaluation.

45

The board requires the CEO to maintain a current, written succession plan for her/him and their senior executive team.

Advocacy

46

The board requires a periodic community health needs assessment.

47

The expectation that board members advocate on behalf of the organization is explained during board member orientation.

48

The ability to advocate on behalf of the organization is a board membership criterion used in the selection process of new board members.
The board sets goals for itself around the issue of advocacy for enhanced health gain and health care.

The board has established a policy that spells out the board’s role to influence fund development and philanthropy efforts.
Find even more knowledge, guidance, and insights at our Knowledge Center on IntegratedHealthcareStrategies.com.

Or connect with one of our consultants today by calling 800-653-6597.