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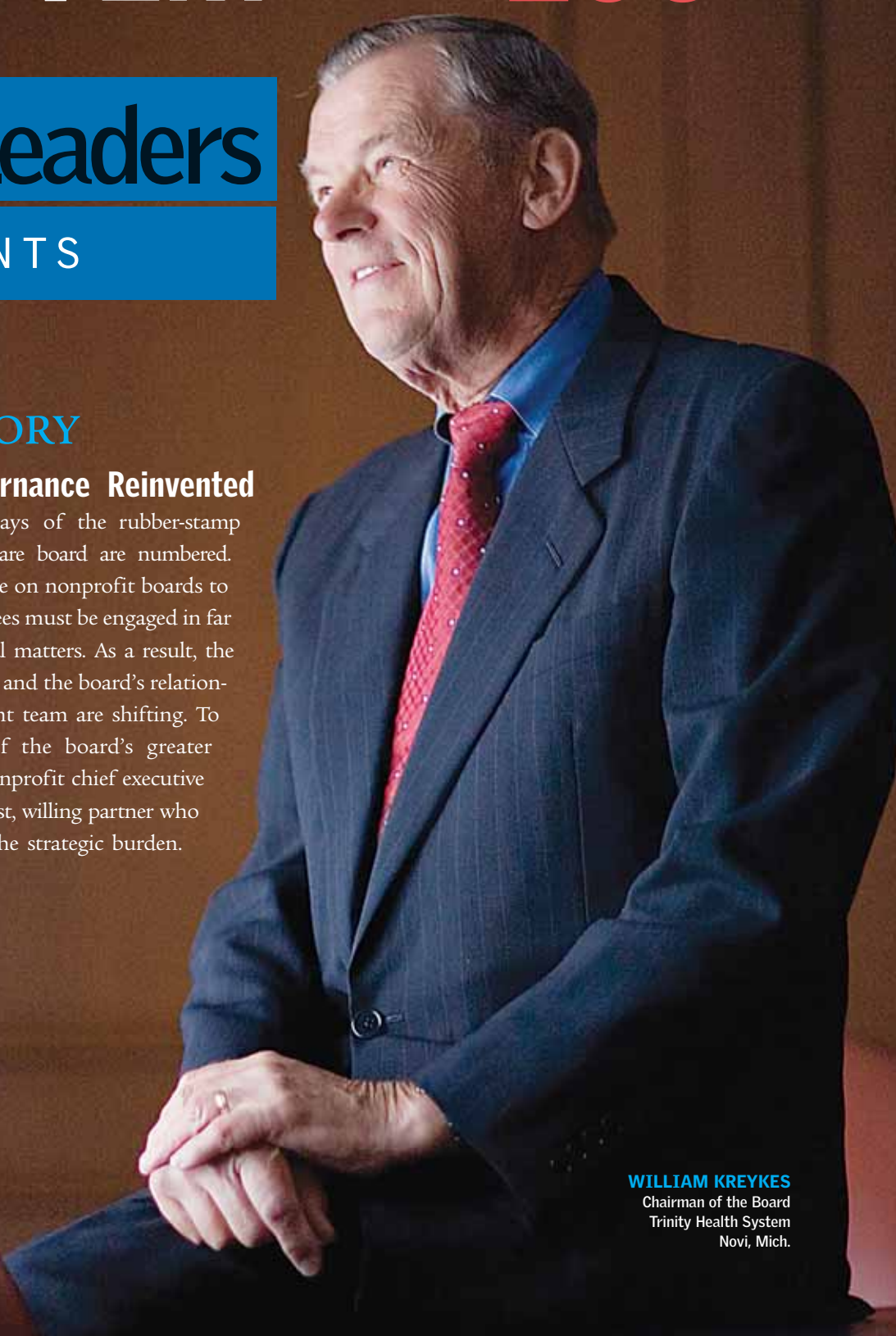
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The days of the rubber-stamp healthcare board are numbered. With increasing pressure on nonprofit boards to be more attentive, trustees must be engaged in far more than just financial matters. As a result, the trustee selection process and the board's relationship to the management team are shifting. To take full advantage of the board's greater involvement, today's nonprofit chief executive officer must be an honest, willing partner who is not afraid to share the strategic burden.

By Kara Olsen

A portrait of William Kreykes, Chairman of the Board of Trinity Health System. He is an older man with grey hair, wearing a dark blue suit jacket, a light blue shirt, and a red patterned tie. He is looking slightly to the left of the camera with a thoughtful expression. His hands are clasped in front of him.

WILLIAM KREYKES
Chairman of the Board
Trinity Health System
Novi, Mich.

ON THE COVER: Photo by Mark Kegans

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REINVENTED

The days of the rubber-stamp healthcare board are numbered. With increasing pressure on nonprofit boards to be more attentive, trustees must be engaged in far more than just financial matters. As a result, the trustee selection process and the board's relationship to the management team are shifting. To take full advantage of the board's greater involvement, today's nonprofit chief executive officer must be an honest, willing partner who is not afraid to share the strategic burden. **BY KARA OLSEN**



Finance

Howard Berman compares an organization's demise to an old proverb that says a dead fish deteriorates from the head down. "The head of any organization is its board, so when you find an organization that's in trouble, it's because somewhere governance didn't work," says Berman, former chief executive officer of Excellus BlueCross BlueShield in Rochester, N.Y., and chairman of the board of the Washington, D.C.-based Alliance for Advancing Nonprofit Health Care. "Having good governance doesn't guarantee good results, but having bad governance pretty much guarantees bad results."

In a rapidly changing industry filled with outside pressure for greater business oversight, effective governance is more vital than ever to a nonprofit healthcare organization's success. Gone are the days when nonprofit boards existed to stamp their seal of approval on senior executives' business decisions. The arising model is one of partnership and collaboration between board and management team, with scarce room for surprises. The new board is engaged, experientially diverse and educated in the business at hand, be it a financial spreadsheet or a quality dashboard. Many CEOs, in turn, are growing more communicative as they recognize that an informed board can be their greatest ally.

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GOVERNANCE REINVENTED

More active healthcare boards mean adjustments for executives and trustees alike. But the environment of teamwork that results from such collaboration can make a significant difference in an organization's ability to swiftly correct internal issues and address broader market changes.

FEELING THE HEAT

Private nonprofit community hospitals in 2006 number 2,966, representing 60 percent of all community hospitals and 78 percent of privately owned community hospitals, according to the American Hospital Association. Additionally, 213 nonprofit health plans provide coverage for roughly 95 million enrollees. In a competitive healthcare landscape, running a hospital or health plan grows more complex every year. "Competitive pressures, pricing policies and the impact of high numbers of uninsured have all made operating viable healthcare organizations more difficult," says William Kreykes, chairman of the board of Novi, Mich.-based Trinity Health System and former CEO of Lifespan health system in Rhode Island.

As an organization's needs change, so do the demands placed on the powers that be. And the more executives' responsibilities mount, the more help they need. CEOs are not only drawing their boards deeper into the decision-making process, but also seeing trustees as a valuable ally in physician relations. "With the re-establishment of the approval of physician-owned hospitals, competitive pressures make the executive management role more difficult," says Kreykes. Trustees can help ensure that the medical staff has representation on the board and build rapport through social interactions.

Groups ranging from the Institute of Medicine to the National Quality Forum have called for trustees to have a louder voice in the quality and safety strategies of the organizations they oversee. Traditionally, such duties have been

"We need a group of people whose minds are focused on strategy and going forward, rather than looking back."

delegated to medical staff members, who sent reports and dashboards to the board for review. But times have changed. "If it was on the board agenda before, it might have been a 10- to 15-minute report on rates," says Todd C. Linden, president and CEO of 49-staffed-bed Grinnell (Iowa) Regional Medical Center. Now the facility's 16-member board may spend twice as much time discussing quality issues as financials. "We're looking for the same robust measurement tools, benchmarks and discussions that we've had around finances, so we have the same level of scrutiny on the quality side," Linden says.

Hospitals' use of health information technology systems to improve quality and patient safety means boards must be more tech-savvy than ever. The 11-member board of Cary Medical Center in Caribou, Maine, has played an integral role in the hospital's 10-year plan to become fully electronic. The bulk of the 30-staffed-bed hospital's financial outlay has shifted to bring the facility online with an electronic medical record system, computerized physician order entry, automated medication dispensation and bar coding. "Historically, resources have gone towards bricks and mortar, which is something that you see," says CEO Kris Doody-Chabre, R.N. "You watch the construction from the ground up, and you can see the evolution of the progress. It's different with information systems, so it's been a transition."

The Compensation Question

Board members' greater responsibilities and increased time given to the community organizations they serve inevitably raises the question of compensation. In general, the nonprofit board member is asked to view board service not as an income opportunity, but as a chance to give back to the community. The sticking point with compensation is that many in the industry worry reimbursing trustees for their time will change the volunteer dynamic traditionally associated with the tax-exempt board. Putting the board on the payroll could threaten to

cross a line that would draw scrutiny from regulators.

Most compensated boards tend to represent large organizations, like Novi, Mich.-based Trinity Health System, which operates in seven states and has board members from coast to coast. As board chair, William Kreykes estimates he spends 60 to 70 days a year attending to Trinity business. More localized Texas Health Resources, serving 29 counties in north Texas, does not compensate trustees.

Board compensation is not as sticky for nonprofit health plans, says Howard

Berman, chairman of the board of the Alliance for Advancing Nonprofit Health Care. He estimates that a plurality of health plan boards is compensated. If organizations continue down a path focused less on getting trustees from a particular location and more on finding a wider variety of expertise to govern the institution, compensation may become more prominent. But for now, paying board members for their service is largely reserved for systems spread across a great distance.

—KARA OLSEN

GOVERNANCE REINVENTED

decision-making analysis. Boards filled with resume-building community leaders whose two main functions were to hire the CEO and fire him when things went south are slowly being replaced by more carefully thought-out groups of people. “Most progressive boards are looking for a balance of the skills they need to deal with the complexities the organization faces, so they’re looking for people who have financial or clinical backgrounds, those who are experts in safety in other fields, and even those with an understanding of human resources and keeping the workforce engaged,” says John Combes, M.D., president and chief operating officer of the Center for Healthcare Governance in Chicago, an AHA affiliate.

Finding the right mix boils down to two steps: determining the areas where current trustees’ experience is lacking, and employing a more rigorous board member recruitment process. These two steps can be applied in a variety of ways. When the board of Texas Health Resources in Dallas has an opening, for example, the 13-hospital system uses a deliberate selection process that resembles one used by popular online match-making services. The 18-member board

developed a series of primary and secondary core competencies against which as many as half a dozen candidates may be measured. The primary requirements, which must be met by all candidates, are based on the mission and vision of the organization. Secondary factors depend on the particular perspective, background or expertise noted as missing from the current board roll.

At Grinnell, the board development committee is responsible for reviewing member information like background, professional experience, geographic location, gender and race to paint a picture of the board. The panel uses the data to create a list of desirable attributes when reaching out to recruits. For example, Grinnell trustee Dave Vander Linden, president of home building and remodeling company Vander Linden Construction, Inc., came aboard when the hospital was in the midst of a construction phase.

Once the board identifies a number of prospects who fit the bill, the interview process begins. Each candidate is quickly introduced to Grinnell’s trustee job description. “To let prospective board members know what’s expected, we have an orientation process where we walk them through what the hospital



● **QUALITY FOCUS.** Grinnell Regional Medical Center’s 16-member board is a diverse group that spends as much time scrutinizing quality as it does financials, says Todd Linden, left, Grinnell’s president and CEO. Trustee Dave Vander Linden, president of the home building and remodeling company Vander Linden Construction Inc., joined the board when the hospital was in the middle of a construction phase.

As if industry shifts aren’t providing enough of a push for increased board oversight, the government is paying more attention than ever to nonprofits. The business regulations placed on the for-profit world by the Sarbanes-Oxley Act of 2002 have many in healthcare convinced that a similar plan for nonprofits isn’t far off. Congressional activity and charity care lawsuits targeting tax-exempt organizations have prompted boards to re-evaluate the extent of their organizations’ community benefit, says Kreykes.

FITNESS TESTS

With new responsibilities piling up, trustees and senior leaders are evaluating whether their board has the right mixture of background and experience to provide crucial

Sage Advice...

...for the CEO:

Howard Berman: Make conversations with the board a nonevent. Communication should happen frequently and take many different forms. If you only call the chair when there's a problem, the conversation will always take on a particular tone.

William Kreykes: Let the board know you want more involvement and oversight on their part. If a leadership team is resistant to board input, the board is left questioning where to go.

Todd Linden: Identify best practices and make some comparisons to engage

the board more fully. Reach out to institutions that have good boards and processes in place to learn about their experiences.

Douglas Hawthorne: Right-size the board. If you have a board of 50 or 35, the level of interest members have in speaking up during a meeting diminishes radically because they may think that somebody else may say something or that they're going to take up time on the agenda or that what they say is not important.

...for the board:

Hawthorne: Don't assume that things are going well. Board members should be more deliberate about asking questions and being part of strategy development.

Kreykes: Put an effective board evaluation process in place. Annual assessments can identify issues that exist among board

members and between the board and the executive team so that work plans can be developed to address problem areas and maintain trust.

Linden: Set and discuss clear expectations so that the board understands the CEO's role and the CEO's expectations of the board and vice versa. You get into trouble when there's a misperception of expectations, and people can get defensive.

John Combes: Emphasize the issues you feel are important to stakeholders' needs. The CEO will follow, and the organization will move in that direction.

Dave Vander Linden: Be diligent in involving medical staff leadership in board retreats. It says something to the medical staff that the board really wants them there.

—KARA OLSEN

trustee is expected to do and what their responsibilities would be," says Vander Linden. Being frank about the time commitment helps both the candidate and the board determine whether the person has the time to devote to the assignment.

Hamstrung by a city charter-mandated term limit of two three-year terms, the Cary Medical Center board sometimes asks potential board candidates to serve on committees before they actually hold a voting seat. Doody-Chabre says the hospital identifies people who may have an interest in joining the board, then asks them to participate in the finance or personnel committee as a means of creating a succession plan and jumpstarting the candidate's healthcare learning curve.

With 30-owned and 15-managed hospitals in seven states, Trinity Health System uses a search firm to find new directors when vacancies occur. "Individuals who come onto the board via a search process seem to have a much better understanding of the organization and the expectations, and therefore come to the table with a higher level of commitment than directors who are brought on the board because somebody else on the board knew them," says Kreykes.

REFINING THE FOCUS

A tougher business environment means the CEO and trustees must re-evaluate the board's focus as well as its composition. Instead of recounting old numbers and dead issues, the best boards instead choose to devote energy to helping

the organization set goals and ensuring that the resources are there to achieve them, says Combes.

For Texas Health Resources President and CEO Douglas D. Hawthorne, it's a matter of discipline. "We need a group of people whose minds are focused on strategy and going forward, rather than looking back," he says. "Unless that kind of discipline is available in the boardroom, all we'll be doing is rehashing things that have already happened and not projecting or advancing the organization."

Texas Health Resources has revised its board agendas so that only 30 percent of meeting time is allotted for retrospection and reporting events that have already occurred. The bulk of the time is spent looking ahead. Trinity operates under a similar rule, with 80 percent of the board's meeting time spent in discussions about the future and just 20 percent spent in presentation and analyzing previous activities.

Since much of the agenda-setting falls to executive management, CEOs can help steer boards in the right direction. Trinity has a staff person charged primarily with working with CEO Joseph R. Swedish and Kreykes to plan agendas based on an annual work plan outlined by the board governance committee.

For the past six years, THR has relied heavily on the work of board committees that meet in between the full board's bimonthly gatherings. Rather than ask a committee to work on projects with little guidance from hospital management, THR pairs a member of the leadership team

with a board committee related to that senior manager's area of oversight. For example, the chief financial officer is a member of the board finance committee, the vice president of human resources supports that board committee and the quality committee is assisted by the chief clinical and quality officer.

"We're trying to create consistency and continuity between where the board heads and where management is leading," Hawthorne says. "This way we don't have a lot of executives off doing things that don't match up with what the board direction is. They know what the critical issues are that the board is working on and are matched up with board committees where they can get ideas developed. Policy can then be taken to the full board."


CHALLENGING TRADITION

Improved collaboration between boards and executives doesn't always come easy. While the new governance model is being embraced by many, some executives may still prefer the status quo of a board that simply validates ready-made decisions. "There are still those CEOs who feel the strategy of choice is to entertain and befriend the board, make them feel good and hope that nothing bad happens," Berman says. But experts say this kind of relationship can't last.

Executive resistance may be a simple matter of insecurity, Kreykes says. Fearing a board with too much control, some CEOs may discourage engagement with trustees. "Boards need from CEOs the acceptance that the stronger the board is, the more effective the organization will be and the easier the CEO's job is going to be," he says. An unwillingness to bring the board more fully into the decision-making process may signal to trustees that the CEO doesn't trust them to make decisions or even possess information. If the board reciprocates that mistrust, the executive may find his or her job in jeopardy.

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What CEOs may fail to realize, however, is that board relations are not a matter of determining the balance of power, says Berman, but rather a balance of roles. The board chair manages the board; the CEO manages the organization. The board approves strategies and policies, the CEO ensures those strategies and policies are explained and enforced. "When either overarches, you begin to have conflict," Berman says. "CEOs must continually remember the limits of their role, and then the CEO and chair have to continually harness the board to focus on the limits of its role."

Ultimately, a big part of the CEO's new responsibilities is arming the board with information. Hawthorne estimates 20 percent of his time is spent on board relations, from preparation and distribution of materials about healthcare trends to communicating both one-on-one and in larger groups. "The whole issue of board relations has a varied degree of importance in the eyes of CEOs. Some see them as a real advantage from the standpoint of helping to create the future, and others see them as something that's required," he says. "But if a CEO is not focused on his board and the opportunity the board offers, it could be the downfall of a number of institutions." 

Kara Olsen is a staff writer with HealthLeaders magazine and managing editor of HealthLeaders Online News. She may be reached at kolsen@healthleadersmedia.com.

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Alternative Members

Boards looking to expand their level of expertise—especially those in smaller markets—may find it helpful to look for new members outside the traditional realm. Howard Berman says nonprofit boards should think like a publicly traded company when recruiting representatives:

■ Recruit from other nonprofit organizations that are in competitive environments—like museums.

■ Look for the No. 2 or 3 person in another organization (rather than a time-crunched CEO) who may view membership as a way to learn some new skills.

■ Seek out academics who may analyze problems in different way and provide checks and balances.

■ Reach outside your community for people with experience in different environments. (Remember, if you're asking

people to travel a few hours, you may need to restructure your board and committee meeting schedules to make the most of their time.)

■ Don't overlook the possibility of recruiting a healthcare executive from a noncompeting market. You may be able to find someone who is professionally dominant in the industry with invaluable insight to offer.

—KARA OLSEN

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