

Health System Governance: An Overview of Practical Approaches to Effective Governance

DUE TO A NUMBER of significant events in healthcare over the past few years, it is apparent that a mandate for change in governance practices of healthcare systems has reached the top of the list of healthcare issues. Besides healthcare reform, “governance” is the topic *de jour* for most healthcare systems. While much has been written about the challenges and issues facing boards, best practices and some innovative approaches to good governance,¹ less has been directed to practical solutions. I have devoted most of my career to the development of practical solutions, first for healthcare clients as a practicing attorney with Hall, Render, Killian, Heath and Lyman and more recently as general counsel and Senior Vice President of Governance & Sponsor Relations for Ascension Health, the second largest health system in the United States with hospitals in 20 states and the District of Columbia.²

This article is the first in a series and will provide an overview of some of the more significant challenges facing health system boards; subsequent articles will address practical solutions. The goal of the series is to provide some practical steps that can be easily implemented to improve the efficiency and performance of health system and healthcare organization boards. Most of the fundamental governance issues are equally applicable to both healthcare system boards and the boards of stand-alone community hospitals. While differences in the focus and scope of an issue will vary from system to hospital board, the basic issues and practical approaches addressed in these articles will apply to both.

While I concur with Dr. Richard Chait’s premise in *Governance as Leadership: Reframing the Work of Nonprofit Boards* (2005) that the fundamental issue facing healthcare boards is one of purpose,³ and that boards need to spend more of their time and focus on “generative” thinking, based on my experience, boards need to institute several organizational and process changes before they are in a readiness position to move into a generative mode of governance and fulfill their extremely important purpose.

I believe the fundamental issue facing boards today remains, “What can boards do to become more effective and efficient in fulfilling the mission of the organization?” In order for a board to answer this

issue, it must re-examine the current organization and processes of the board and address the following questions:

- How is the board organized?
- What is the principal work of the board?
- How is the board’s work being processed?
- Does the board set annual goals?
- Is the agenda structured to facilitate generative thinking?
- Does the board have an effective board education and development plan?
- Is the organization meeting the needs of the community?

As these areas are examined in subsequent articles, I will offer some practical guidance on steps boards can take to become more effective and efficient and, thus, be in a better position to fulfill the mission of the organization.

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—Rex P. Killian, President,
Killian & Associates, LLC

Overview of Challenges

Several challenges from the public and private sector have led to increased scrutiny of the role of governance in non-profit healthcare, including the duties and responsibilities of board members. A few of the more pressing challenges that have been well documented are summarized below:

- **Corporate scandals:** While most corporate scandals have not involved healthcare organizations, they have clearly shined the spotlight on the role of governance and the duties of board members. Because there are more similarities than differences between the governance principles that apply to for-profit and not-for-profit corporations, including the duty of directors, many of the lessons learned from corporate scandals of the past few years are worthy of attention by the boards of non-profit healthcare organizations.
- **Sarbanes-Oxley (SOX):** Adopted in 2002 and applicable only to public companies that are subject to the securities laws, many of the principles and requirements addressed in SOX are sound business practices for non-profit healthcare organizations and should be adopted.
- **Mergers and acquisitions:** With the expectation of further consolidation of health systems and hospitals, boards not only need to understand the business case and economics of these transactions but they also need to be active participants in the strategy and mission discussions.
- **Community benefit:** With ongoing scrutiny by the public and private sectors over the tax-exempt status of non-profit healthcare organizations, the board needs to be informed and active in overseeing the organization’s operations and finances and its response to community needs. In a recent presentation by Steven T. Miller,

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1 Elements of Governance™: *Best Practices: Non-profit Corporate Governance* (2005), The Governance Institute; Building an Exceptional Board: Effective Practices for Healthcare Governance—Report of the Blue Ribbon Panel on Healthcare Governance, 2007, Health Research and Educational Trust; Prybil, L.D. “Characteristics of Effective Boards,” *Trustee*, Vol. 59, No. 3, March, 2006; Zablocki, E. and Bader, B. “Seven for ‘07: Key Issues for Boards in the New Year,” *Great Boards*, Vol. VI, No.3, Winter 2006.
2 After transitioning from Ascension Health effective June 30, 2007, Mr. Killian formed his own consulting company with a special focus on governance and healthcare systems, Killian & Associates, LLC.
3 Chait, R.P., Ryan, W.P., and Taylor, B.E. (2005). *Governance as Leadership—Reframing the Work of Nonprofit Boards*. Hoboken, New Jersey: John Wiley & Sons, 2004.

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the IRS Commissioner for Tax-Exempt & Government Entities, Mr. Miller discussed the need of tax-exempt entities to take steps to improve governance since "...a well-governed organization is more likely to be compliant while poor governance can easily lead an exempt organization into trouble."⁴ The IRS has also proposed "good governance practices" for tax-exempt organizations. Board members should anticipate further IRS involvement in this area.

- **Quality and patient safety:** With a spotlight on the cost and quality of healthcare across the U.S. and pay-for-performance initiatives, boards need to take an active role in this area. While the focus will be different at the system level from the hospital level, boards at both levels have an important role and responsibility to play.

Subsequent articles will address practical approaches that lead to a more effective and efficient board. These articles will address the following areas:

1. **Organization:** How should a board be organized? Is the board the right size and are the right people on the board? This inquiry is similar to the issue James Collins raises in his monograph to his book, *Good to Great*⁵ when he asks if the right people are on the bus. Health systems and hospitals need to ask the same question. This article will provide some practical approaches to address the board size, composition, structure, competencies of board members, board recruitment board committees and staffing.
2. **Culture:** How do you create the culture needed for high-performing boards? This topic includes the conduct of board and committee meetings, the interrelationships of board members and staff, the relationship between the chair and the CEO, the need for open and transparent communications, and the use of board retreats.
3. **Work of the board:** What is the principal work of the board? Is it directly related to the mission of the organization? Does the board have a board education and development plan? This article will address the roles and responsibilities of the board which should drive the competencies needed on the board and the setting of board goals. Practical tools to facilitate the work of the board will also be discussed.

4. **Process:** Does the board meeting agenda facilitate the accomplishment of the work of the board? Does the board consume most of its time by receiving reports from management and committees? Can the meeting be conducted more efficiently? We ask much of board members, and time is their most precious commodity. This article will explore Dr. Chait's three modes of governance—fiduciary, strategic, and generative—and discuss examples of how these governance modes fit into the board's work and agenda. Practical suggestions will be made as to how the agenda and materials can be structured and streamlined to allow dedicated time for all three governance modes.
5. **Monitoring performance:** Finally, how does the board know it has fulfilled its responsibilities and become more efficient and effective? This article will address board, board member, and board chair evaluations, meeting assessments, and sample tools to ensure that the board is accomplishing its goals and is allocating its time wisely.

At the end of the day, I am hopeful that these practical approaches and insights might enable health system and hospital boards to become more effective and efficient and assist the organization in fulfilling its mission.

The Governance Institute thanks Rex P. Killian, president of Killian & Associates, LLC, for contributing this article.

4 Miller, Steven T., Remarks of Steve T. Miller, Commissioner, Tax-Exempt and Government Entities, IRS, Before the Georgetown Continuing Legal Education Seminar, April 26, 2007, Washington, D.C.

5 Collins, J. *Good to Great and the Social Sectors*. A monograph to accompany *Good to Great* (2005).

