

Peak Effectiveness for Government-Sponsored Hospitals & Health Systems Begins with Governance

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SPECIAL COMMENTARY

Since I last wrote a special commentary on public hospital governance for The Governance Institute’s biennial survey eight years ago,¹ there have been many important changes in the health industry. It is essential for public hospital governing boards to keep abreast of these changes in order to govern effectively. And yet the results of the 2019 survey show that government-sponsored hospital boards may still be deficient in some of the policies and practices that are key to such effectiveness.

Some of these trends and reforms affect the industry as a whole, such as the “digital revolution” that can pose both financial and reputational risks for hospitals and health systems. Consumers are increasingly empowered by new rules, regulations, and policies that require greater transparency on costs, quality, outcomes, and access. Other recent developments include the increased attention to cybersecurity and patient confidentiality and privacy, expanded use of telehealth and other digital tools, the trend toward value-based compensation and away from piecemeal payment methodologies, the heightened emphasis on integration, care coordination and population health, among others.

Some trends may disproportionately affect government-sponsored hospitals, putting even more pressure on the boards of such hospitals. The ongoing implementation of the ACA against the backdrop of constant pressure from those who would erode or repeal it must be carefully monitored for its impact on present and future viability and planning. Even in states that expanded Medicaid coverage for patient

populations more likely to be served by government hospitals, many such hospitals failed adequately to predict the likely impact. Some were not prepared for the influx of newly covered patients, while others overspent and overbuilt without taking sufficient steps to compete for those patients.

Clearly, effective governance will be crucial for public hospitals in responding to these trends and potential crises. As this biennial survey shows, public hospital governance has not evolved rapidly enough to keep pace with industry trends and reforms.

Access to capital could become even more problematic. At the same time, the movement toward hospital industry consolidation has continued and accelerated, further isolating many public hospitals that have been unwilling or unable to join the consolidation trend.

Clearly, effective governance will be crucial for public hospitals in responding to these trends and potential crises. As this biennial survey shows, public hospital governance has not evolved rapidly enough to keep pace with other industry trends and reforms. It is therefore essential that government-sponsored hospitals understand the areas in which they fall short of the rest of the industry, so that they can make the necessary changes to improve the effectiveness of their governance.

Government hospital boards have continued to demonstrate weaker

performance than the rest of the industry in several important areas:

1. Government-sponsored hospitals continue to have significantly smaller boards than other categories, with a downward trend since 2017. While the industry trend has been toward smaller, more streamlined boards, there is a de minimus floor below which a board may be incapable of including the range of experience and devoting the necessary time to the important tasks of governing a modern, 21st-century hospital.
2. This group is the least likely of all categories to impose term limits on board membership, a best practice that ensures that boards have opportunities to add members with the necessary skills, experience and perspectives. While many government-sponsored hospitals are limited by the nature of how their board members are selected, more and more we are seeing cases in which such hospitals do have the power to impose term limits.
3. Government hospital boards appear to meet more frequently than other categories (10–12 times per year). While frequent meetings may enable board members to keep abreast of key issues and strategies, they also require substantially more staff resources (both in preparation for board meetings and in digesting and writing up the results) that could detract from the ability of management to implement board-approved strategies and policies and may also lead to board members crossing the important line between management and governance.
4. Government-sponsored hospitals were the least likely to give the executive committee authority to act on behalf of the full board for some or all decisions.

1 Larry S. Gage and James A. Rice, “Strengthening Public Hospital Governance” (special commentary), *Dynamic Governance: An Analysis of Board Structure and Practices in a Shifting Industry*, 2011 Biennial Survey of Hospitals and Healthcare Systems, The Governance Institute.

5. As in previous years, government-sponsored hospital boards reported spending less than all other types of boards on board education (less than \$10,000 annually); effective board education is considered essential for effective governance in an era of rapid-fire changes in all of the areas outlined above.

6. Use of board portals has increased substantially between 2011 and 2015, but government hospital boards continue to lag behind the rest of the industry.

At the same time, it is important to point out that government hospitals actually equaled or outperformed the other categories included in this survey in several areas:

1. Government-sponsored hospital boards were as likely as their peers to adopt best practices in a number of areas, including the duty of care, quality oversight, financial oversight, and strategic direction.
2. The proportion of government hospital boards whose performance was rated “excellent” or “very good” was similar to their peers in carrying out responsibilities related to financial oversight, duty of loyalty, duty of obedience, duty of care, management oversight, and strategic direction. However, government hospitals lagged further behind all respondents in the areas of quality oversight, community benefit and advocacy, and board development.
3. Independent board members can provide key diversity of expertise and experience needed to address many current and future trends and concerns, and government-sponsored hospital boards performed well in this area, with 89% of the typical government board being made up of independent members.
4. Having a CEO with a clinical background is also increasingly considered a positive trend leading to effective governance, and the government hospitals in this survey outperformed other categories in this area.
5. In addition, government hospital boards had the highest proportion of several essential competencies being sought for new board members, including finance/business acumen, strategic planning and visioning, and quality and patient safety. At the same time, this group was significantly less likely than their peers in seeking board members with “second-curve” competencies in innovation/disruption, digital/mobile

health, medical/science technology, and conflict management.

Improving Governance in Government-Sponsored Hospitals

Effective governance will be an essential component of the ability of government-sponsored hospitals and health systems to successfully respond to the challenges described above. To assist in developing and implementing effective strategies, public hospital governing boards can:

Get educated. Be proactive in learning about the challenges of the future. Management should provide board members with up-to-date information about each of the challenges the hospital is likely to face. Access to key publications, the opportunity to attend national or regional conferences, and regular presentations from key innovators can bring public board members a much greater understanding of the job they need to do.

Improve strategic thinking. Too often, members of public hospital boards are inordinately focused on day-to-day operations such as financial crises, patient care incidents, or meeting the needs of specific patient populations. Each of these issues may be important, but focusing too much attention on them robs the board time and resources to think strategically about long-term needs.

Focus on long-term mission and success. Board members need to check constituency behavior at the boardroom door. Often, public hospital board members are nominated or appointed to represent certain constituencies. Some of those constituencies are no doubt important to the future success of the public hospital. However, it will be more important than ever in facing the challenges of the next several years for boards to maintain the discipline necessary to help management prioritize strategies and focus limited resources on those actions most likely to ensure the hospital’s future viability.

Improve community outreach. Board members can be instrumental in forming bonds with other key players in their communities. An increased focus on value-based care and population health will require partnerships with other community organizations that pay attention to the social determinants of health status of vulnerable patients more likely to be served by public hospitals.

Focus on care delivery transformation. Understand the profound underlying

changes taking place today in the diagnosis and treatment of many diseases and conditions, and support management in transforming the public health and hospital system from inpatient-centric to a more balanced mix of inpatient and outpatient/ambulatory care.

Set goals for improvement, then give management the breathing room to achieve them. Incent management to work with the board to develop plans to achieve greater operational, competitive, and financial efficiencies, and then provide management with the time and resources to implement those plans. It is more important today than ever to maintain the dividing line between governance and management.

Focus on filling gaps in board member expertise. Public hospitals need a succession plan for their board members that takes into account the changing demographics of their patient population and workforce, as well as the background and technical skills that will be most helpful in addressing the challenges of the future.

In conclusion, effective governance has never been more important for both public and private hospitals and health systems. Quite simply, public hospitals and health systems in most parts of the country still face more barriers to success than private systems, at a time when the challenges have never been greater. The current and future political, fiscal, and competitive environment requires all of the major components of a public hospital or health system to be operating with peak effectiveness, which starts with governance.