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Governing Health Systems at the Intersection of Mission Ethics and Business Practice

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There are more than 4,000 private and governmental, not-for-profit, tax-exempt hospitals in the U.S.[1] A growing number are becoming members of larger secular, faith-based, and governmental health systems of varying sizes. State and federal tax-exemptions provide these health systems financial advantages, such as exemptions from paying state and federal income tax, exemptions from certain property tax obligations, and access to lower-cost, tax-advantaged debt. In exchange, these health systems must serve a defined and qualifying community need or common good. Stated mission examples include charity care, research and education, and the training of clinicians. Failures to meet legal, regulatory, and tax code requirements have resulted in not-for-profit health systems losing their tax-exempt status.[2] Loss of tax-exemption represents a colossal failure of governance, which can result in legal consequences for the health systems, leadership, and directors.

The focus of this article is not on the legal, regulatory, and tax issues related to the governance of not-for-profits, but rather on an underlying topic that gets little or no attention during health system board meetings: the ethics of business strategy as it relates to the stated, institutional mission. The central question here is, **"What is the responsibility of directors of not-for-profit health systems to understand, oversee, and exercise governance over the ethics of business practice as it relates to mission strategy?"**

The central theme is tax-exempt, not-for-profit health systems have requirements of mission that differ from for-profit providers. It is the job of governance to ensure that

1 "Fast Facts on U.S. Hospitals, 2021," American Hospital Association.
2 "Revocation of Tax Exemption," National Council of Nonprofits.

mission requirements are observed as organizations define, design, and execute on business strategies of the organization. The job requires boards to use their bests efforts to ensure the alignment of mission ethics with business strategy. The COVID-19 pandemic shines a bright light on this requirement (see sidebar, "Pandemics, Public Health, and Mission"). A number of key board-level questions should be brought to the fore. Three of several are:

- What role do we play in community public health practice, including crisis preparedness?
- Given our size, scope of clinical competencies, and availability of financial resources, is our business strategy reasonable and responsible?
- Are the risks required of our business plan prudent as we consider them in the context of our ongoing mission accountabilities to all communities served?

The first lesson for not-for-profit health system boards is that the mission is everything the organization does, including how everything gets done. It's not simply the portion of revenues allocated for charity care, financial contributions to community services and agencies, and the organization's willingness to serve patients funded by governmental programs that pay less than commercial payers. Nor should directors categorize all clinical service programs that "lose money" as

➜ Key Board Takeaways:

- "Mission" of not-for-profit healthcare organizations is everything the organization does. It's not just free care provided, contributions to community services, or special programming for the underserved.
- A principal and fundamental responsibility of a governing board of a not-for-profit organization is to ensure that the business practices of the organization readily align with the mission ethics of the organization, as defined by governance.
- A practical approach to testing mission ethics is for boards to engage with leadership in discussions of the approach to the execution of the organization's strategic plan with a focus on how expected business practices will reflect upon the organization's values and mission accountabilities to those values.

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mission activities. The whole of the business strategy of the organization reflects the mission strategy of the organization. Governance holds the responsibility for the ethics of mission, as it is executed through business strategy.

"Organizational ethics" can be defined simply as a set of principles that guide the "right behaviors" as defined by institutional values and moral imperatives. Faith-based organizations such as health systems sponsored by the Catholic Church derive such guidance, in part, from the "Ethical and Religious Directives of the Catholic Church."[3] Secular organizations may derive the basis for ethical practice directly from the governing body of the organization. Regardless of corporate sponsorship, governance of not-for-profit health systems bears the responsibility and real-world accountability for mission ethics as executed through business practice.

Virtually every not-for-profit health system in the United States has a publicly available mission statement. Here are two examples:

- "Inspiring hope and promoting health through integrated clinical practice, education, and research."—Mayo Clinic
- "Rooted in the loving ministry of Jesus as healer, we commit ourselves to serving all persons with special attention to those who are poor and vulnerable. Our Catholic health ministry is dedicated to spiritually centered, holistic care, which sustains and improves the health of individuals and communities. We are advocates for a compassionate and just society through our actions and our words."—Ascension

Ascension goes on to define its healthcare ethics as "Aligning with Catholic healthcare ethics practices, which helps foster disciplined decision-making processes that promote our mission, vision, and values."

Both Mayo and Ascension qualify as private, not-for-profit, tax-exempt healthcare organizations, with all rights and obligations that apply, as provided through U.S. and state tax code regulation and guidance. Based upon the differences between their declared missions, it can be inferred that each will go about serving their missions by way of different strategies. Regardless, each is obligated to align business practice with the implied moral and ethical imperatives of their stated missions.

3 *Ethical and Religious Directives for Catholic Health Care Services*, Sixth Edition, United States Conference of Catholic Bishops, June 2018.

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➜ Pandemics, Public Health, and Mission

The COVID-19 pandemic has sent health system boards reeling with questions that go beyond the agenda of the typical board meeting. A few that loom large are:

- Should we have been better prepared?
- What is our future role with the public health programming for the communities we serve?
- Should we restructure and redirect our approach to the stewardship of organizational resources and mission of the organization in the direction of public health practice?

While there are no easy answers to these questions, they bear attention by a board. A reasonable approach to this discussion is framed by more questions:

- What is the difference between effective public health practice and the delivery of healthcare, including the treatment of the infirmed and injured?
- Do we have the institutional knowledge and competencies to mount an effective plan of preparation and action in the direction of public health practice?
- What could/should we do alone and with partners to responsibly serve an adjustment to mission, while remaining good at our core competencies and essential services?
- How will we resource, fund, and afford any adjustments in this direction?

While the missions of medical care delivery and public health practice intersect and overlap, they are not one and the same.* Before boards allocate organizational resources to public health programming as mission, a substantial amount of board education, discussion, and discernment is required.

* D.K. Zismer, "An Argument for the Integration of Health Care Management with Public Health Practice," *Journal of Healthcare Management*, Vol. 58, July/August 2013.

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Making a Clear Connection between Mission Ethics and Governance Oversight of Business Practices

Healthcare in the U.S. is an estimated $4-trillion industry. It certainly qualifies as a "business." Business ethics, at the level of governance, can be defined as: A set of principles or standards of human conduct that govern the judgement and behavior of organizations.

It follows then that the governing boards of private, not-for-profit health systems hold the ultimate responsibility for how their organizations conduct business, including the mission strategy. Let's dive deeper into this central thesis with a case vignette.

Case Vignette: Ethical Questions in a Health System Mission Strategy

A health system holds a dominant position in a regional geographic market. It is a preferred source of care for high-revenue clinical service lines such as cardiovascular services, cancer care, and trauma care. One sub-section of its mission statement makes reference to "being good stewards of community healthcare resources." Leadership proposes that increased investments be made to expand branded primary care satellites at greater distances to enhance access to care, particularly in rural areas. The strategy will be expensive and the expanded primary care network will, on a fully cost-accounted basis, "lose money." The effects will be negative on future financial margin performance, which, over time, will be compensated for by increased specialty referrals to the system's tertiary care center, and by increasing prices to third-party payers (e.g., insurance companies and larger, self-insured corporations). Likewise, the organization has significant cash reserves that can be applied with no material effects on the organization's credit rating. These cash reserves provide an advantage over smaller regional competitors that may have designs on the same markets.

Are there ethical questions directors should ask of this business strategy, given the implied ethics of the organizations mission strategy? In addition to a range of related business plan questions, two of the important mission ethics questions that pertain include:

1. To what extent will the strategy be financed by way of disproportionate cost-shifting to commercial payers, self-insured corporations, patients with individual insurance coverages, and philanthropic benefactors of the organization?
2. How will hospitals, physicians, and other providers located in the target market geographies be affected by the strategy; i.e., is the success of the strategy

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dependent upon shifting market share away from provider organizations, and if so, at what cost to the providers who lose in the execution of the strategy?

The main issue here is not necessarily the specific answers to the questions, or the final strategic plan decisions, but that the board knows to ask them, is sufficiently prepared to discuss them, and has a framework for the required ethical decision making that follows.

The Decision-Making Framework

If governance is responsible for overseeing the ethics of the business strategies executed to serve the organizational mission, then a framework for the process is required. There is no "off the shelf" guide for this. The framework provided here is an example intended to stimulate conversation between directors and senior management as each strategic plan unfolds.

This framework is presented in the form of seven practical questions that, with the right conversations, can satisfy a board's obligation to best ensure that the ethics of a business strategy comports with the mission accountabilities of the organization:

1. Can governance directly align the tactics of the organization's strategy with the mission responsibility of the organization?
2. Could the financial resources invested in the strategy unreasonably risk or compromise the organization's total financial health, including putting essential services at-risk?
3. Will the costs of the strategy be disproportionally shifted to specific patient populations or payers in the form of higher prices or increased total cost of care?
4. Will the strategy unreasonably target the required markets of other community healthcare providers locally or regionally, such that others who serve targeted markets must lose in order for us to win?
5. How will the strategy affect physician affiliates of the organization, whether employed or independent?
6. Do we have the requisite competencies and experience within the organization, such that the board can reasonably trust that management can sufficiently shepherd the strategy to success—in other words, do we have senior leaders who are experienced with what we intend to do?
7. How will we evaluate the expected outcomes of the strategy against other mission accountabilities?

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Conclusion

Some experienced health system leaders and boards may say "we do talk about mission when deciding strategy for the organization," and while that may be true, mere discussion may not substitute for the application of a rigorous, focused process of board and leadership discourse and discernment.

Experience demonstrates that it is often a challenge for directors of not-for-profit organizations to intellectually integrate the concepts of strategy, business practice, and ethics with mission, whether for secular or faith-based health systems.

Boards can get off to the right start with governance oversight of mission ethics of business strategy by addressing each plan of action by asking four questions:

1. What are we doing?
2. Why are we doing it?
3. How do we expect to do it?
4. What are potential consequences of our efforts that may be inconsistent with our organizational values and related mission accountabilities?

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