

# Hospital Focus

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The Governance Institute

## A Fresh Look at Best Practices for Hospital Boards

By Steven T. Valentine, President, *Valentine Health Advisers*

**There are many publications that put forward best practices for hospital boards.** However, few resources have been updated to reflect the current environment, changes in societal expectations, and the public's expectations of a healthcare provider.

Let's start by reviewing what is expected of a hospital board. First, adherence to the organization's mission, vision, and values is vital. The board should review these annually and obtain agreement at the board level that the three areas are still valid and appropriate. Second is diligent strategic planning. The board, hand in hand with management, should develop a robust strategic plan that follows the mission, vision, and values. Third is focusing on the fiduciary duties of the board as it relates to the organization, including investment performance and fundraising oversight. This article explores key governance best practices that will help boards ensure they are fulfilling these expectations and effectively working with management to plan for both the near and long term.

**Revisit the organization's strategic plan, taking into consideration new industry and market challenges.** As we think of strategic planning, a necessary component of this process is to assess the healthcare environment. Currently, boards and management are faced with many unknowns in healthcare, including:

- Cybersecurity/ransomware
- Escalating capital costs and high interest rates (access to capital)
- Increasing operating costs
- Labor shortages and higher wages

- Election results and a new healthcare policy direction
- Lower utilization
- Physician shortages
- Closure or reduction in the number of rural hospitals or services (typically obstetrics)
- More regulation and compliance
- Price transparency
- More involved patients/public
- New technologies and innovative treatments that impact the delivery of care, including AI, telehealth, mobile services, gene therapies, and specialty pharmaceutical drugs
- Industry disruptors from mergers and acquisitions (not necessarily by hospitals, think physicians)

The board can use this as a checklist to make sure management addresses these areas when developing the strategic plan. An important add to the strategic planning process is scenario planning. The management team and board should evaluate some major changes in the hospital's future that are likely and that would have a major impact on its strategic direction. This is valuable to evaluate the hospital's vulnerability to certain changes that could throw it off course.

**Focus on financial sustainability.** Additionally, the changing area of reimbursement and payment by the government and health plans presents new methodologies and pressures from price transparency and increases below hospital operating cost increases. Because the operating revenue is experiencing pricing pressure, investment returns/performance and fundraising efforts become even more important in the total picture of the organizations' financial strength. A strong finance committee and investment committee are critical to the organization's financial sustainability. The finance committee should work with the strategic planning committee and ask for input regarding capital needs going forward (investments required to meet its vision). The finance committee will also need to coordinate with the investment committee to determine the financial capability of the organization to implement its strategic plan.

**Conduct board and committee assessments.** The Governance Institute recommends that boards conduct an annual assessment of board effectiveness and have a formal process for evaluating the performance of individual board members. Board members should answer questions around their fulfillment of duties, knowledge, participation, and needs. This discipline should apply to the committees as well. Ideally, the board will review its committee performance at least every two years to ensure charter fulfillment and effective coordination between committees and the board.

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## Discussion Questions for the Board

- Has the board and management revisited the strategic plan to ensure it is addressing today's challenges? Is the board having bold discussions around strategy, and does it incorporate scenario planning into conversations and the planning process?
- How are the finance, investment, and strategic planning committees (or those in charge of these tasks) working together to ensure the hospital has the financial capability to implement the strategic plan?
- Do we regularly assess our board and committees? How are the board and committees using the results to improve effectiveness?
- Is the board made up of people with the right expertise, passion, diversity, and knowledge to carry out the strategic plan? Does the board have a solid recruitment plan to proactively fill any gaps?
- Are quality outcomes regularly reviewed and discussed at the governance level?

### **Ensure strong board and committee composition, structure, and processes.**

All organizations should give strong consideration to having the following committees: governance/nominating, quality, finance, investment (can be combined with finance), audit, and executive (if the board is over 13 members). Medical staff matters can be dealt with by the total board. Given the importance of the finance and investment committees, special care should be given to attract and recruit committee members with specific skills, knowledge, and experience with relevant topics that match the needs and strategy of the organization.

Composition of committee and board members should always start with the recruitment of smart and knowledgeable people. The board should closely resemble the community of its service area. It is difficult to attract board members since so many have other obligations and commitments to their family, work, volunteer activities elsewhere, etc., so it is critical to have a robust, proactive recruitment process. For board members to successfully govern, they need to have high energy, passion, and a commitment to the organization. Another good practice used by hospitals is to recruit potential candidates to a committee and use that as a stepping stone to board membership. Typically, board terms are for three years and a maximum of three terms.

Board meetings should have a carefully crafted agenda and materials sent out prior to the meeting date (preferably a week ahead of time to ensure there is enough time for

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review). Such materials should include updates on the industry or other hot topics that the management team can address and discuss. It is strongly recommended that boards have an annual retreat as well, which provides additional time for updates on the organization, identification of issues that need to be addressed, discussion around performance against goals, and updates on the industry with an emphasis on issues that lie in the hospital's future.

**Rigorously review quality outcomes.** Obviously, a critical responsibility of the board is oversight of the hospital's quality outcomes. These outcomes are typically made public (letter or star grades). The population is becoming better educated and is slowly accessing the quality data, including going online to access other databases to get more/multiple sources of quality data. The board will typically rely on the chief of staff, medical staff committee/credentialing reports, and input from senior staff accountable for quality reporting.

In conclusion, boards have a lot to think about. A strong management team that is forward thinking is very valuable to the board. Boards need capable membership that reflects its community and is dedicated, committed, and engaged in the happenings of the organization. Creating a pipeline of board and committee members is a critical component of board and organization success.

## Additional Resources

- [“The Outlook for Independent Hospitals: Key Insights for Leaders”](#) (Hospital Focus Article)
- [Board Self-Assessment: A Core Responsibility](#) (Elements of Governance)
- [“What Is Our Organization Trying to Be? Strategic Planning after Turbulence”](#) (BoardRoom Press Article)
- [Board Recruitment](#) (Intentional Governance Guide)
- [“Enhancing Financial Oversight for Independent Hospitals”](#) (Hospital Focus Article)

TGI thanks Steven T. Valentine, President, Valentine Health Advisers, for contributing this article. He is a national consultant and has served on hospital boards. He can be reached at [stv189.sv@gmail.com](mailto:stv189.sv@gmail.com).

