EXCEPTIONAL GOVERNANCE FEATURES

This Health Law News article is Part VII in a series discussing the new governance study, "Governance in Large Nonprofit Health Systems: Current Profile and Emerging Patterns." The full Report is available here. Part I - Executive Summary was published in Hall Render's Health Law News on August 8, 2012, Part II - Public and Private Scrutiny of Hospital and Health System Governance was published on August 28, 2012, Part III - Benchmarks of Effective Governance was published on September 4, 2012, Part IV - Key Findings - Board Structure avnd Composition was published on September 11, 2012, Part V - Key Findings - Board Processes was published on September 18, 2012 and Part VI - Key Findings - Board Culture was published on September 25, 2012. The remaining article(s) in this series will cover the key recommendations of the Report.

In describing the new governance study in Part I of this series, Rex Killian, President of Killian & Associates ("K&A") and Of Counsel to Hall Render, set out the four objectives of the study. One of these objectives was to "identify and describe some examples of 'exceptional governance features' that are in place in these [participating] systems." Each participating system was asked to identify and describe one feature of its governance model that it considered particularly beneficial to its governance structure, processes or culture. In this Part VII, we will discuss some of these special governance features.

Each system was very generous in its willingness to provide a selected governance feature and tool. These are summarized at page 46 of the Report and presented in Appendix B. There is very little duplication of the subjects or focus areas of the fourteen features presented, and after close review, they provide some excellent examples of the three key measures of board performance that were the basis for the governance benchmarks, those being board structure, board processes and board culture.

In the areas of **board structure and composition**, three systems presented governance features that address competency-based boards (Carolinas HealthCare System ("CHS")) and board committees (Kaiser Foundation Hospitals and Health Plan ("Kaiser") and Mercy Health ("Mercy")).

- **Competency-based boards** - CHS's process for selecting board members (Report p. 71) starts with a review of the collective competencies of the board and what competencies need to be developed. The nominating and governance committee identifies and recommends potential board members who will contribute to the mix of skills needed. As discussed in Part V of this series, K&A believes that this approach to board composition is a necessary component of an effective board succession planning process, which is designed to make sure that the board is comprised of the right people with the competencies needed to perform the work of the board. This process, as noted by the CHS Board, "relies on thoughtful, intentional selection of board candidates, utilization of ... an organized approach to board committee service to build and maintain an excellent governing board."
- **Board committee for community benefit** - Kaiser's selected feature (Report p. 89) addresses the structure and process whereby the board exercises its oversight responsibility for community benefit. Kaiser's board created a standing board committee solely responsible for community benefit. The committee is charged with "strengthening the community benefit program and activities; regularly reviewing its strategies, policies and performance; monitoring related internal control systems and risk assessment and management; reviewing the design and management of major initiatives; overseeing related legal and regulatory compliance; and increasing public recognition of community benefit activities." This governance feature is consistent with Recommendation #4 of the study (Report p. 56), which recommends that a standing committee be charged with the oversight responsibility for system-wide community benefit policies and programs and the organization's role and priorities in the area of population health. With increased public and private scrutiny in this area, including the new IRS compliance requirements around community health needs and population health, K&A concurs in the recommendation that boards charge a standing board committee with oversight responsibility for this emerging focus area.
- **Board committee for physician integration** - Mercy's selected feature (Report p. 94) addresses physician integration and the system's 2009 decision to charter a board committee on physician engagement. The principal role of the committee is to assess and monitor the progress of the strategy for physician integration. The committee reviews quarterly reports on the status of physician integration in the system, reports on leadership development and makes recommendations to the board when action is necessary, and

reports on the status of integration activities. Given current pressures to develop strategies for tighter hospital/physician integration and the rapid growth of hospital-owned physician practices, a standing board committee focused solely on this area deserves attention.

In the area of **board processes and practices**, the systems presented a wide array of governance features, including those addressing system compensation; integrated strategic, operational and financial plans; system scorecards; generative governance; visioning; and discernment processes.

While these are all important governance features, given the board's oversight responsibility for patient care quality and safety and the enormous growth in quality improvement programs and metrics, Catholic Health Partners' ("CHP") system scorecard (Report p. 79) deserves special attention. As the Report notes at page 57, "one consequence (of this trend) is that hospital and health system boards often are presented with reports on ... quality and safety that include an extensive array of highly-detailed metrics and data that, for many board members ... are too voluminous and difficult to comprehend." Too many boardrooms are "awash in quality and safety '*data*'; what the boards need is more concise and understandable *information*." This rationale led to Recommendation #6, which states in part that boards should "define more clearly the roles that boards and board committees can and should play in today's environment with respect to patient care quality and safety. In that context, the information (volume, content, and format) that will facilitate board members' understanding and ability to perform their duties effectively should be identified and provided."

For CHP, "creating a System Scorecard to measure strategic progress, while simultaneously integrating this tool into the Executive Evaluation Process, has been an important tool for advancing CHP's culture and strategy." Emphasizing quality and performance results has been a key to the development of the scorecard. The CHP scorecard contains four parts and approximately twenty individual measures covering operational, financial, strategic and quality metrics, approximately one-half of which are devoted to quality-focused objectives. As system board quality committees strive to present concise and understandable quality information to the system board, the CHP system scorecard merits consideration.

While a board quality committee, in K&A's experience, may need to drill down on many more than nine quality metrics, the system board would be well served by receiving a report that is more concise and understandable. By analogy, hospital and health system boards have become accustomed to reviewing five or six key financial metrics that provide an overview of the financial status of the organization, yet these same boards continue to receive quality reports that show the progress of a very large number of quality metrics, many of which are not well understood by board members.

In the area of **board culture**, the title of Banner Health's ("Banner") governance feature (Report p. 68) says it all - "Culture Trumps All Other Variables for Success." Banner states that the success of their governance model "focuses on a few key behavioral approaches that have driven organizational success and demonstrate that culture supports behaviors which drive organizational performance." Banner's board's culture is supported by several behavioral characteristics, including the following:

- Willingness to challenge conventional truths and each other without making it a personal matter;
- Focus on future success and viability rather than on old traditions and past loyalties;
- Calm consideration of difficult issues without emotion but with logic - limits things going unsaid and produces a healthy, engaged and productive culture;
- Structuring board meetings to emphasize focus and preparedness - board members are highly engaged and participate actively;
- No board member represents a particular constituency, which allows for open debate without fear of reprisal;
- Encouraging of differing opinions; and
- Allowing disagreement without members being disagreeable.

Banner's governance feature is consistent with, and supportive of, Benchmark #8 and Recommendation #8 in the Report, which recommends that board leaders "undertake an objective appraisal of the boardroom culture that currently prevails within their organization and determine steps that can be and should be taken to make it healthier and more effective." As addressed in Part VI of this series, two benchmarks of effective governance and seven indicators were selected to evidence a healthy board culture. In K&A's experience, the benchmarks of effective governance are all interrelated. Given the truism that "culture eats strategy for lunch," Banner's focus on the

board's culture is spot on and is instructive on some of the steps that can be taken to improve the culture and the overall performance of the board.

If you have questions regarding the study, please contact:

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