



# CRITICAL QUESTIONS

**Every Hospital Board  
Needs to be Able to Answer**



Developed for the Iowa Hospital Association  
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**BETTER GOVERNANCE. BETTER HEALTHCARE.**

“Critical Questions Every Hospital Board Needs to be Able to Answer” was developed by governWell™, building on over two decades of experience working with small and large hospitals and health systems, hospital associations and other health care organizations.

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# Contents

1. Introduction.....	4
2. What is the board’s fiduciary responsibility? .....	5
3. What is the difference between the hospital’s mission, vision and values? .....	8
4. What is the board’s role in quality and patient safety?.....	12
5. How does the board create a culture of safety? .....	17
6. How does the board ensure a healthy, equitable community? .....	23
7. How does the board ensure strong and effective executive leadership?.....	28
8. What is the board’s responsibility for planning for the future? .....	37
9. How can the board be visionary in an era of uncertainty and transformation? .....	45
10. How does the board hold itself accountable for continuous leadership improvement?.....	48
11. What are the most prominent health needs in your community? .....	55
12. How does the board build lasting community partnerships?.....	64
13. Why should hospitals develop a community benefit report? .....	68
14. What is population health and why is it important?.....	72
15. How does the board ensure strong collaboration with the medical staff? .....	77
16. What is the board’s role in medical staff credentialing? .....	82
17. How should the board gauge the hospitals’ financial performance?.....	86
18. What does it mean to be an effective advocate for your hospital?.....	94
19. How does the board ensure successful leadership for tomorrow?.....	98
20. How does the board ensure continuous growth in its critical leadership knowledge?.....	105
21. How does the board keep conflict out of the boardroom?.....	108
22. What is the board’s responsibility for ensuring a positive workplace culture?.....	113
23. What is the board’s accountability for ensuring the right organizational structure?.....	119
24. What’s is the board’s role in disaster planning?.....	125
25. How does the board move forward after COVID-19? .....	129

## Introduction

**H**ospitals in the U.S. contribute much more than clinical care. They play an integral role in what's right with America's health care system, acting as centers of innovation and education, working outside their walls to improve community health, providing free and discounted care to uninsured and underinsured patients, and contributing significantly to their local economies.

America's health care system is undergoing significant transformation, and hospitals are seeking new ways to deliver value-based care, improve the health of their patients and communities and ultimately elevate "what's right with health care" to a new level. Many hospitals and health systems are increasingly partnering with their communities and aligning and integrating services across the continuum of care, but at the same time are confronting significant financial pressures as they face changes to reimbursement, rules and regulations.

Trustees play a significant role in the transformation of health care and must demonstrate strong leadership to navigate through the challenges their organizations are confronting. Board service has never been more challenging. The future of health care is still largely unknown, and the range of board responsibilities is broad. Hospitals and health systems need dedicated and knowledgeable individuals who are willing to commit their time, experience, expertise and leadership to the hospital, its mission and the community.

This document has been developed as a resource for trustees seeking to ensure their board discussions, deliberations and decisions are well-informed and evidence based, as they lead their organizations into the future.

# Q: What is the board's fiduciary responsibility?

In any venue, fiduciary responsibilities have to do with issues of trust and confidence. In the realm of hospital governance, it is imperative that hospital governing boards understand their particular fiduciary role as it pertains to accountability, financial responsibility, confidentiality and integrity.

**F**or hospital governing boards, fiduciary responsibilities and their related issues of accountability and trust are complex. Boards have a two-way responsibility: they must act in the best interests of both the hospital and the communities their hospital serves.

In today's economic environment, it is particularly important for governing boards to earn and keep the public trust. In the handling of finances, identifying of community needs and assessment of programs and services, governing boards can and must be held accountable to the people of the communities they serve. There can be no room for question of integrity or credibility of board members. ***Trust is an asset no board can do without.***

## What are "Fiduciary Responsibilities?"

Legally, board members must take particular care to:

- Become thoroughly informed before making a business decision (*Duty of Care*)
- Put the needs of the organization first when taking responsibility for its operations (*Duty of Loyalty*)
- Abide by laws, regulations and standards of the organization's operations (*Duty of Obedience*)

These three main responsibilities are usually referred to as the Duty of Care, the Duty of Loyalty, and the Duty of Obedience. Each may be applied in a court of law to determine whether or not a board member has acted improperly. They are to be taken seriously by every person accepting a position on a board of directors.



**Duty of Care.** When engaging in organizational business, board members must use the same level of judgment they would use in their own personal business activities. The tenets are primarily common sense:

- Obtain necessary and adequate information before making any decisions
- Act in good faith
- Make decisions in the best interest of the organization
- Set aside personal interests in favor of those of the organization

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### The Board's Fiduciary Responsibility: Putting the Community's Trust into Action

Individual state courts often further define board members' fiduciary duties, as does the U.S. Internal Revenue Service (IRS). The IRS, in recommendations for board members, encourages putting policies and procedures in place to ensure that each board member is totally familiar with the organization's activities, that every activity promotes the mission of the organization and helps it achieve its goals, and that each board member should be fully informed about the organization's financial status.

**Duty of Loyalty.** The duty of loyalty bars board members from using their board positions to serve themselves or their businesses. When acting in their fiduciary capacity, the duty of loyalty requires that board members place the interest of the organization before all else. Board members must be:

- Objective and unbiased in their thinking and decision-making
- Free from external control and without ulterior motives
- Free of any conflict of interest when discussing issues and making decisions
- Able to observe total confidentiality when dealing with organizational matters

To identify potential conflicts of interest, board members and staff should annually disclose, in writing, any known financial interest with any business entity that transacts business with the organization or its subsidiary businesses.

The IRS recommends creating written procedures for determining whether a relationship, financial interest or business affiliation results in a conflict of interest, and outlining a course of action in the event that a conflict of interest is identified.

**Duty of Obedience.** The duty of obedience requires board members to be faithful to the organization's mission, and to follow all state and national laws, corporate bylaws, rules and regulations when representing the interests of the organization.

Board members, in carrying out their duty of obedience, will protect the limited resources of the organization to ensure optimal services and benefit to the community. They will ensure legal compliance with all applicable laws and regulations.

### Carrying Out the Board's Fiduciary Duties

#### ***The Duty of Care is fulfilled by...***

- Consistent attendance at board and committee meetings
- Attentive and introspective preparation for board meetings
- Obtaining and reviewing relevant data and information before voting to ensure evidence-based decisions
- Exercising independent judgment
- Periodic examination of the performance of the executives and board members who lead the organization
- Meaningful review of the organization's finances and policies

#### ***The Duty of Loyalty is carried out by...***

- Full disclosure of potential conflicts of interest
- Compliance with the organization's conflict of interest policy
- Avoidance of the use of corporate opportunities for personal gain or benefit
- Maintaining confidentiality when required

#### ***The Duty of Obedience is carried out by...***

- Strict adherence to the bylaws of the board and the mission of the organization
- Compliance with all regulatory and reporting requirements
- Understanding of all documents governing the board and its operation (bylaws, articles of incorporation, board and committee job descriptions, charters, etc.)
- Ensuring that decisions further the organization's mission and comply with the scope of its governing documents

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### The Board's Fiduciary Responsibility: Putting the Community's Trust into Action

The IRS recommends several board actions to promote good governance practices related to the board's duty of obedience:

- Develop both a code of ethics and whistleblower policies
- Adopt and monitor specific fundraising policies
- Carefully outline and determine compensation practices
- Develop and strictly adhere to document retention policies

### Two Roadblocks to Fiduciary Effectiveness

Strong boards are independent-minded, curious, and able to focus on what matters most. Their members are willing to challenge status-quo thinking and stretch themselves intellectually.

Weak boards are the opposite—complacent and submissive. Their members do not ensure that all sides of issues are considered, or that “conventional wisdom” is challenged. Weak boards are not likely to successfully carry out their fiduciary responsibilities.

There are two true roadblocks to any board's ability to maintain fiduciary effectiveness: 1) a tendency toward “rubber stamping;” and 2) a tendency toward micromanagement. Both are most likely to occur when a majority of members lack interest, drive or the ability to speak from the shadow of one or more overbearing board members.

**Rubber Stamping.** Members of rubber-stamping boards fail to ask pertinent questions or engage in deliberative dialogue on solutions to challenges, and do not work successfully together to arrive at independent-minded decisions. They accept recommendations with little questioning or debate, and fail to explore alternatives and scenarios that may reveal the weaknesses of arguments or positions.

### Sources and Additional Information

1. IRS Publication 4221, Compliance Guidelines for 501(c)(3) Public Charities. Department of the Treasury, Internal Revenue Service. Revised 2018. [www.irs.gov](http://www.irs.gov).
2. The Excellent Board: Practical Solutions for Health Care Trustees and CEOs, edited by Karen Gardner. AHA Press.
3. Knowledge Center. BoardSource. [www.boardsource.org](http://www.boardsource.org).
4. Horikawa, Saori and Hempill, John. Serving on a Nonprofit Board in the Post-Enron World. Morrison & Foerster, LLP. San Francisco, CA.

Rubber-stamping boards are often a result of overly dominant individuals and weak board chair leadership. A strong board chair will ensure that every board member is meaningfully engaged in constructive thinking and deliberation on the important issues that come before the board.

From a legal standpoint, individual members of a rubber-stamping board may be considered negligent and liable for their actions or inactions, and may be held personally liable for a lack of adequate oversight.

**Micromanagement.** It's often a challenge for board members to see the fine line between management and governance. Board members must understand that they are expected to be leaders and overseers, not managers and implementers. They should be concerned with the “what,” not the “how.” Micromanagement is a term generally applied to boards that pay too much attention to details, and not enough attention to the “big picture” strategic issues and implications.

It's up to everyone on the board to guard against micromanagement. The board chair should ensure that its members understand their roles, and consistently adhere to them. In addition, the CEO needs to be willing to candidly discuss problems of micromanagement with the board chair to work out board-driven solutions to this problem.

### Maintaining the Public Trust

Whether a board member is serving for the first time or has been in the role for a number of years, it behooves every organization to have each board member review these fiduciary responsibilities. Demonstrated personal accountability and acceptance of responsibility are key. No board can afford to lose the public trust.

The bottom line is that board members must act in such a manner that protects both the organization's operations and the community's trust.

# Q: What is the difference between the hospital's mission, vision and values?

Too often hospital leaders develop mission, vision and values statements, and then don't make meaningful strategic use of these critical statements. Successful governing boards know that these statements, when properly developed and used, are the primary driver for every governance discussion and decision.

**T**he board must ensure that the hospital or health system has meaningful, unique, market-specific and compelling mission, vision and values statements. These statements should inspire and lead employees, physicians, trustees, volunteers and others to the highest levels of achievement.

The entire hospital family, from top to bottom, should understand their role and value in achieving the hospital's mission and vision. Every single person plays a vital role, and each person should hold him or herself accountable for understanding that role and playing their part in the attainment of the mission and vision. That culture of commitment is created and inspired by the board.

The board also plays a unique role in motivating and inspiring hospital leadership to excel as strategic change leaders, individuals who can coalesce their colleagues in a strategic movement unified by purpose, committed to excellence, and rewarded for outstanding performance.

## Mission, Vision and Values - The Gears that Drive Organizational Success

The board of trustees is ultimately responsible in every way for the hospital's long-term success in meeting the health care needs of the people it serves. It's incumbent upon the board to ensure a tight strategic fit and linkage between the hospital's mission, vision and values.

These three statements are the foundation of a solid strategic plan. The board of trustees, more than any other group of leaders, is responsible as the "keepers" of these critical success factors.

The board must ensure that these statements are unique, meaningful, powerful and compelling, and that they help solidify organizational thinking when confronted with a multitude of potential pathways to the future.

Once solid mission, vision and values statements have been agreed upon by the board, these statements should be the forefront of board decision making, and at the top of trustees' minds as they develop strategic plans, plan for programs and services, determine community needs, and advocate for legislative and regulatory change that will benefit the community.

## The Mission

***The mission is the core purpose of the hospital.*** It should be a unique description that clearly defines the hospital's distinctiveness and differentiation.

***What Makes a Mission Statement Great?*** Great mission statements are short, memorable, highly focused and enduring. They are able to capture in a few words the uniqueness of the organization and what it strives to accomplish. In addition, they clearly, boldly and vividly define the hospital's distinctive uniqueness - what sets it apart from other hospitals, and makes it a valuable asset to patients and the community.

Great mission statements use words and phrases that are compelling and passionate, and that inspire dedication and commitment. They are the foundation of everything the hospital does, and they inspire the hospital's vision and the strategies and objectives that underpin it.

Great mission statements are used at board meetings to help frame critical discussions and stimulate deliberative

## Critical Questions Every Hospital Board Needs to be Able to Answer

Building the Foundation for Success: Developing Powerful and Purposeful Mission, Vision and Values

dialogue and decision-making. They are a focal point for ensuring that every employee, physician, board member, volunteer or other member of the hospital family understands his or her unique role in helping the hospital to carry out its most important work.

**Keeping the Mission Alive.** Simply having a great mission statement doesn't guarantee that it will be consistently carried out with passion and purpose. In order to keep the mission alive, boards should consider:

- Printing the mission at the top of every board meeting agenda. Having the mission front and center on the agenda will help to ensure that it's thought about and referred to during the course of governance dialogue and decision-making.
- Taking time during its board meetings for "mission moments," opportunities to reflect on some of the ways in which the organization is carrying out its most important work. These mission moments can serve as an inspiring reminder of the importance of the hospital to patients, families and the community, and the importance of the governing board's work in ensuring constancy of purpose in achieving the mission.
- When making difficult decisions, asking: "how will this action, activity or decision further our ability to achieve our mission?"
- At the end of every meeting, taking a moment to reflect on this question: "has the work we've done today on behalf of the hospital and the people we serve advanced our ability to achieve our mission?"

### The Vision

**The vision is a vivid description of what the hospital or health system seeks to become in the future.** It considers future challenges, possibilities and choices, and serves as a "high bar" for organizational success. Like the mission, creating a vision with passion and purpose takes time, innovative thinking, and an ability to think into the future.

**What Makes a Vision Statement Great?** A strong vision statement should be:

- Inspiring, unique and visual, articulating what the hospital's hard work and investment is seeking to achieve, and preparing leadership thinking and resources to meet future challenges.

### How Does Your Mission Measure Up?

- Is your mission dynamic, memorable, compelling, passionate and meaningful to everyone in the hospital family?
- Does it resonate with patients, consumers, payers, and community leaders?
- Does your mission clearly differentiate the hospital from all others in the market? Does it describe your competitive difference and distinctiveness?
- Does everyone in your organization know what the mission is? Can they relate the essence of it to patients, consumers and others? But more importantly, do they "live the vision" through the way they act and serve?

*Based on your answers, should your mission be changed to better reflect your hospital's true core*

- Written in a way that creates a mental image of the hospital at a future point in time.
- Enduring, and able to stand the test of time.
- Hopeful, empowering and measurable, providing purpose and focus in a dynamic, rapidly-changing environment.
- Encompass the "big goals" that drive strategies, objectives and action plans.
- Provide leadership with an "end point" that serves as the foundation for the hospital's strategies and objectives.
- While it should be a "stretch," and be very challenging to achieve, it should also be realistic and attainable with hard, focused work by everyone in the organization.

**The Dynamics of Creating a Vision.** The key components of a vibrant vision are straightforward. They consist of the now - where the hospital is today; the future - an assessment of where the environment is headed; the focus - the responses the hospital intends to undertake to be successful in that future; and the future reality - where the hospital anticipates it will be when it's successful in achieving its prioritized strategic initiatives.

### How Does Your Vision Measure Up?

- Have you defined the areas in which your future success is most critical?
- Is your vision a powerful statement of the hospital or health system's future in the areas most important to its success?
- Does your vision connect with the mission and values?
- Is your vision realistic, while at the same time an organizational "performance stretch?"
- Is your vision relatable to every area and every person in the organization?
- Does your organization measure progress in achieving the vision?

**The Vision Shouldn't Be Generic.** Many believe that a vision should be a simple, short and concise statement. That view often leads to a very general goal that doesn't truly describe the future the hospital seeks to achieve.

Instead, a successful, high-value, strategically usable vision is one that describes what the organization seeks to become in the future in several critical organizational success areas. For example, what is the hospital's vision for improvement in the community's health? What does the board want to be able to say about the level of quality and patient safety in five years? How will the hospital adopt and implement new information technology, telehealth, and new medical technology in five years? What is the hospital's vision in the area of finance, patient and customer loyalty and satisfaction, and overall corporate culture?

In order to successfully achieve the mission, what other organizations will the hospital seek partnerships with, and what will those partnerships look like? What new services will the hospital develop and excel in as a center of excellence? What changes in governance and leadership will be in place in five or ten years, and how will those changes benefit the organization?

These are the types of questions that should be asked by the board in the process of developing a value-focused strategic vision. They establish an agenda for strategic change that must be supported by clearly-defined strategies and measurable objectives.

### Values

**Values are the principles and beliefs that drive organizational behavior at every level throughout the entire organization.** The values are inspirational guideposts, the ethical compass that inspires people to live their professional lives in a certain way, and relate to patients, families, visitors, competitors, and others by exhibiting certain organizational and personal qualities and characteristics.

Values are not simply a collection of high-sounding words on a wall in the hospital lobby. They are the "rules of the road" that signify what the hospital is and what it believes. They should be communicated and demonstrated through action – every day, in every way.

**Good Values Create Better Organizations.** Good values can create better organizations if they are more than just platitudes. Truly meaningful values:

- Are the unchangeable, bedrock core principles and ethics that guide the actions and belief structure of the organization.
- Are the fundamental beliefs and truisms that guide organizational behavior and decision making.
- Serve as "cultural cornerstones," a blueprint for organizational, employee, and medical staff behavior.
- Set the organization apart from its competitors, and establish its unique organizational culture.
- Limit operational freedom and constrain behavior in order to ensure compliance with all laws and regulations, and set a high ethical bar.
- Demand constant vigilance to keep them at the forefront of organizational behavior and expectations.

**Putting the Hospital's Values to Work.** Having values is important, but embedding them into the hospital's culture is critical. The board can help make that happen.

The hospital's values should be integrated into every employee-related process – hiring, performance evaluation, criteria for promotion and awards, and dismissal. They should continually remind everyone in the hospital family that the values form the basis for every decision the organization makes, particularly the most difficult ones.

## Critical Questions Every Hospital Board Needs to be Able to Answer

Building the Foundation for Success: Developing Powerful and Purposeful Mission, Vision and Values

### How Do Your Values Measure Up?

- How distinctive are your values?
- Do your values make a positive difference in the way people act, serve and relate to one another?
- Do your values support the mission, vision and strategies?
- Does your organization use the values when evaluating employee performance?
- Does your hospital or health system showcase examples of living the values?
- Does your hospital enforce its values, even when

One way to highlight and instill the values is to tell stories about how employees, physicians, volunteers, trustees and others exemplify the hospital's values in their work. Successful demonstration of the organization's values should also be celebrated at employee meetings, board meetings, community meetings and other venues.

### Making Your Mission, Vision and Values More Than Words on Paper

**Keep the Mission Center.** The mission, vision and values should be prominent elements of decision making at all board meetings. Not only should they be displayed with every board meeting agenda, but items should not appear on the board agenda unless they are directly connected to the mission, vision and values. When considering any decision, boards should always discuss how the decision will contribute to fulfilling the organization's mission.

**Check Alignment with the Strategic Course.** When considering policy and strategy decisions, boards should put them to the mission, values and vision alignment test. Do they fit? Can their rationale be explained? Is an investment in them an investment in furthering mission, values and vision success?

In addition, boards should regularly examine their strategic progress by reviewing the indicators that tell them whether they're on the right strategic course, and continually probe the value of their initiatives in helping them achieve their mission and vision. They should also ensure that a well-defined board-approved system is in place to measure progress toward achieving the mission, vision and strategies, and take timely corrective action when necessary.

**What Do We Know Today that We Didn't Know Then?** One vital question that should be regularly asked by the board of trustees is this:

*“What do we know today that we didn't know when we developed our vision for the future? And if we had known then what we know now, would our assumptions change? Would our strategies change? What would we be doing differently?”*

It's important that the mission, vision and values be reviewed on a planned, predictable basis, such as at the board's annual retreat. These should not be static statements. Instead, they evolve as the environment evolves. Assumptions should be challenged, and developing realities should be factored into the hospital's thinking about what it is and where it's headed. The only way to ensure that occurs is through a continual flow of new information, new ideas, and new knowledge that drives new assumptions.

**Seek Leadership Involvement, Particularly From the Medical Staff.** Defining the hospital's mission, vision and values is not the exclusive job of the board. It's one of the primary responsibilities of the board, but to do it right requires involvement and buy-in across the organization.

The medical staff is one of the principal groups whose input and involvement is critical to success. In addition, the board should always depend on well thought-out options and alternatives from management to help shape the mission, vision and values course.

# Q: What is the board's role in quality and patient safety?

Ensuring high quality and safe care is a critical responsibility for board members. Since 1999 when the then shocking Institute of Medicine report entitled *To Err Is Human* was released, there has been growing discussion and focus around preventable medical errors, increasing patient safety, improved efficiency and effectiveness, building trust and transparency, and creating systems that eliminate the potential for error.

**O**versight of quality and safety is a board responsibility that extends across the organization. It cannot be delegated. Accountability in quality and safety encompasses all of the services that the organization provides, well beyond the four walls of the hospital.

The board sets the quality and safety goals and holds the administration and medical staff accountable to achieve them. The board is also responsible for credentialing and re-credentialing of the medical staff, which includes not only physicians but non-physicians who provide a medical level of care when diagnosing and treating patients (including advance practice nurses, physician assistance, psychologists and others).

The overall objective of credentialing and privileging is to ensure that only qualified doctors and medical staff providers are admitted to and remain on the hospital's medical staff, and that they practice within their scope of experience and competence.

## The Current State of Safety in Hospitals

Health care in America is criticized for its high cost and low quality. When the Institute of Medicine (now called the National Academy of Medicine or NAM) published its report *To Err is Human* in 1999, it estimated between

44,000—98,000 people died in hospitals annually as a result of preventable medical errors. Since that report, other reports have been published estimating there are significantly more preventable deaths annually, and still others calculating the large amount of financial “waste” that takes place in the U.S. health care system.<sup>1</sup>

For example, research indicates that about **one in ten patients in the U.S. develop an adverse event during hospitalization** (such as a health care acquired infection or preventable adverse drug event). Another study found that half of all surgeries had a medication error or adverse drug event.<sup>9</sup>

According to research published in the *Journal of the American Medical Association (JAMA)*, waste accounts for approximately one-quarter of U.S. health care spending. The authors estimated the waste to be between \$760 billion—\$935 billion annually. Because no other country spends more on health care than the United States, these numbers seem all the more impactful.<sup>2</sup>

Health care leaders are working to reduce waste and errors, and public and elected officials are concerned and taking action. Yet errors occur in hospitals every day. Regardless of the nature or scope, medical errors significantly impact quality of care, patient satisfaction, medical staff and employee morale, cost of care, insurance contracts and reimbursement.

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## Critical Questions Every Hospital Board Needs to be Able to Answer

Board Leadership on Quality and Patient Safety: Understanding the Board's Role

### The Cost of Health Care Waste

In a 2019 study, researchers reported the following about waste in the U.S. health care system: <sup>2</sup>

**25%** The percentage of U.S. health care spending on waste.

**\$760**  
**- \$935 bil.** Estimated annual billions of dollars spent on waste in health care.

**\$191**  
**-\$282 bil.** Estimated annual savings from implementing the six Institute of Medicine categories to reduce waste (care that is safe, effective, patient-centered, timely, efficient and equitable).

Boards of trustees must take strong, organized action to establish and nurture an organizational accountability and culture that continually seeks to improve quality and patient safety at every turn. Board members individually, and collectively, can make a big difference in quality and patient safety.

**The ultimate goal of excellent care is zero harm.** The Joint Commission describes the process of achieving zero harm through highly reliable care. In health care, that means that care is consistently excellent and safe across all services and settings. <sup>3</sup>

### A Large Problem: Inadequate Systems

The health care system has wide-ranging opportunity for improvements to be made relating to lack of leadership,

lack of a safety-focused culture, lack of sustaining improvements, and inadequate systems.

Physicians and nurses do their best every day to provide great care in the very complex environment of health care. The majority of errors are caused by health care systems or processes which are faulty, too complicated, or fragmented.

For example, medications have brand names and generic names, and the names may look and sound different. In addition, packaging changes, labels, and variations in dosages (such as pill vs. injection) can cause confusion. “Look-alike, sound-alike” drugs aptly describes this challenge, and it is no wonder that adverse drug events are the most common type of health care adverse event.

Understanding the nature of system failure and fragmentation, boards must ask: “What can our hospital do to improve our systems to support safe, high quality care?”

### Six Aims for the Health Care System

The Institute of Medicine (now the National Academy of Medicine) helps boards by defining “six aims” for the health care system. These are six areas hospital trustees and leaders should watch for in their organization as care is discussed. <sup>4</sup>

- **Safe:** Avoiding harm to patients from the care that is intended to help them.
- **Effective:** Providing services based on scientific knowledge to all who could benefit, and refraining from providing services to those not likely to benefit.
- **Patient-centered:** Providing care that is respectful of

### Case Study: How System Failure Impacts Quality

A patient is in pain. The physician has ordered morphine for severe pain (rated by the patient as 7-10 on the pain scale), and the nurse administers morphine. Although she knows she needs to check back in fifteen minutes to make sure the patient's breathing has not been impacted, she also has another patient that is very sick and is scheduled to receive a CT scan. The patient needing the CT scan is very ill so a nurse must accompany the patient. The nurse decides to go down with the patient who needs the CT scan. Meanwhile, the patient she gave the pain medication to begins to have very shallow breathing from the pain medication.

## Critical Questions Every Hospital Board Needs to be Able to Answer

Board Leadership on Quality and Patient Safety: Understanding the Board's Role

and responsive to individual patient preferences, needs, and values and ensuring that patient values guide all clinical decisions.

- **Timely:** Reducing waits and sometimes harmful delays for both those who receive and those who give care.
- **Efficient:** Avoiding waste, including waste of equipment, supplies, ideas, and energy.
- **Equitable:** Providing care that does not vary in quality because of personal characteristics such as gender, ethnicity, geographic location, and socioeconomic status.

Board members must have measures that demonstrate how their organization is performing in each of these six areas.

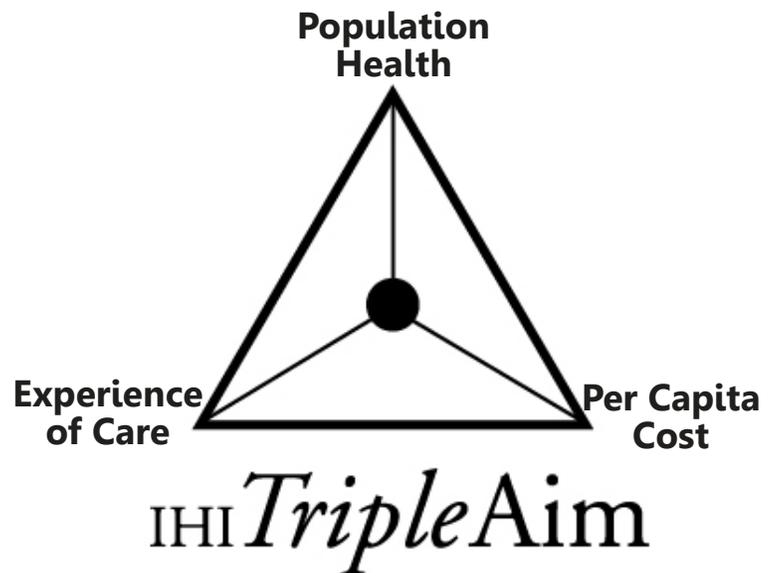
### Quality and Patient Safety are Job One

Too often boards of trustees assume that quality and safety problems are not an issue unless they hear otherwise. Boards should ask questions to identify areas with the greatest need for improvement. Questions boards should be asking include:

- How good is our quality? How do we know?
- Where do we want our quality to be, and by when? How do we sustain our quality improvements?
- What is our "culture" of quality and safety? Are errors reported, including by management to the board?
- What does the public expect from us?
- What should we be measuring?
- Do we publicly disclose our quality and safety performance, and to what degree?
- What quality and safety issues are emerging as areas we should begin to address?

### The Triple Aim

One of the ways health care leaders are working collectively to make a difference in health care quality is by focusing on achieving the Institute for Healthcare Improvement's (IHI) concept of the "Triple Aim" - 1) better health for the population being served, 2) an improved experience of care (including quality), and 3) care provided at a reasonable cost.



For more information, go to [ihi.org/Topics/TripleAim](http://ihi.org/Topics/TripleAim).

Boards of trustees should embrace their role in patient safety for moral, ethical, legal and financial reasons. Board members must understand that they are liable for the care provided; that medical errors significantly impact health care costs; and that better patient quality and patient safety are key components of "staying on top" in a highly competitive environment.

Patients have the right and expectation to receive excellent care regardless of the size of their health care provider. Board accountability for quality and safety is the same regardless of the size of the organization.

**Board Liability.** It is ultimately the board's responsibility to ensure that their organization is taking clear, appropriate measures to provide the safest health care in the most efficient and effective manner. By understanding where quality and safety risks are emerging, the board can proactively take steps to

### IHI: Characteristics of High-Achieving Hospital Boards Committed to Improving Quality and Patient Safety

The Institute for Healthcare Improvement has identified 15 specific governance behaviors that increase the odds of rapid quality improvement throughout hospitals and health systems. High achieving boards:<sup>7</sup>

1. Set a clear direction for the organization and regularly monitor performance
2. Take ownership of quality problems and make quality an agenda item at every board meeting
3. Invest time in board meetings to understand the gap between current performance and the "best in class"
4. Aggressively embrace transparency and publicly display performance data
5. Partner closely with executives, physicians, nurses, and other clinical leadership in order to initiate and support changes in care
6. Drive the organization to seek the regular input of patients, families, and staff, and they do the same themselves
7. Review survey results on culture, satisfaction, experience of care, outcomes, and gaps at least annually
8. Establish accountability for quality-of-care results at the CEO level, with a meaningful portion of compensation linked to it
9. Establish sound oversight processes, relying appropriately on quality measurement reports and dashboards ("Are we achieving our aims/system-level goals?")
10. Require a commitment to safety in the job description of every employee and require an orientation to quality improvement aims, methods, and skills for all new board members, administrators, staff, and physicians
11. Establish an interdisciplinary Board Quality Committee, meeting at least four times a year with a board member sitting on the committee
12. Bring knowledgeable quality leaders onto the board from both health care and other industries
13. Set goals for the education of board members about quality and safety, and ensure compliance with these goals
14. Hold crucial conversations about system failures that resulted in patient harm
15. Allocate adequate resources to ongoing improvement projects and invest in building quality improvement capacity across the organization

eradicate or prevent errors from happening. This essential connection between risk management and quality improvement is key for boards to understand.

As a result, continually seeking education about current trends and implications must be a board priority. Boards should regularly review key quality indicators, understand what they are measuring, and take corrective action when necessary.

**Cost.** The cost of medical errors to the individual, health care system and society is significant. In addition to the costs already discussed, payers and large businesses are increasingly expecting health care partners to demonstrate high quality, efficient care. This has resulted in a growing number of providers being excluded from payer contracts.

***Quality and safety at a reasonable cost is fundamental to a health care provider's survival.***



**Inpatient harm reduction is associated with reduced inpatient LOS, mortality, and readmission rates, which will benefit patients. Harm reduction is also associated with lower costs and higher contribution margin for hospitals. Therefore, reducing harm not only is the right thing to do for patients but also financially and clinically prudent.<sup>5</sup>**



*-The Joint Commission*

**Competition.** Although quality has traditionally been a matter of perception on the part of patients, an increasing number of organizations are publishing hospital quality ratings and report cards. While many of these agencies use different measures and definitions, awareness of quality and patient safety measurement is growing. Hospitals that encourage a culture of safety and move toward the goal of zero harm have an

opportunity to not only improve patient care and reduce expenses, but to also build public trust, confidence and business growth. In contrast, hospitals and health systems that do not put processes in place to reduce serious safety errors risk losing money, employees, consumer confidence and market share.

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# Q: How does the board create a culture of safety?

Providing high-quality, safe care begins with a culture of safety. The board is responsible for setting the tone for the organization, providing the tools necessary for employees to carry out the quality and patient safety vision, and encouraging a safe environment by regularly measuring and monitoring quality measures. Boards should expect transparency, continual improvement, and measurable results from the medical staff and administration in a way that promotes safe and constructive conversations about success and failure. If the administration feels threatened each time a failure occurs, failure will become hidden from the board and buried deep in the organization where there is no opportunity for learning and improvement.

**H**umans make mistakes. It is up to organizations to create systems that prevent errors from reaching patients. The people aspects of evaluating safety are called “Human Factors.” To address this, hospital and health system leaders should ask questions such as: What is the next error that is likely to occur? How will our systems prevent it? How is our staff working around unsafe or cumbersome systems to provide needed care to patients?

A common example is nurses who place packets of medications in their uniform pockets because it takes too long to get the medications from the automated dispenser at the nursing station, which is a long distance away. Another example is trying to provide needed care at night but not calling for a physician order because the physician on-call always gets angry at the nurse if he or she is awakened.

Many errors are caused by systems that are ineffective, but there are instances where an employee or physician is truly negligent, such as being unwilling to come and see a patient when asked to do so. Negligent providers need to be held accountable and told their actions are not acceptable. At the same time, hospital and health system leaders must continually seek out opportunities to improve systems that do not promote safe, reliable

care. While organizations cannot remove the “human factor,” they can minimize the potential for error by placing “defenses” into systems and processes.

## Creating a Culture of Safety

Boards must define what a culture of safety means for their hospital or health system, including the following critical components:

- **Commitment of Leadership:** Active involvement by the hospital’s governing body, clinical and non-clinical leadership, with continual improvements in patient safety, error reduction and reaching for high reliability and zero harm as an explicit hospital priority.
- **Open Communication:** Patient involvement in decisions about their care, informing patients of the consequences of the care they receive, and ensuring language and behaviors which support the patient safety effort.
- **Engaged Patients:** Hospitals and health systems using best practices have patients provide feedback to the board about quality, patient safety, and the

### Ensuring a “Just Culture”

The board’s actions set the tone or “culture” for their organization, including setting patient safety guidelines and priorities and dedicating the resources necessary to provide appropriate, effective, safe care.

Physicians and clinical staff must be held accountable for providing superior quality. For example, a physician who does not wash his or her hands or has a high rate of errors needs to be supported and held accountable for improving his or her care.

**This matching of the board’s role and fixing systemic issues as the cause for patient harm, while simultaneously holding staff accountable when there is reckless behavior, is called a “just culture.”**

A “just culture” advances organizations beyond simply saying that human error is unacceptable, which only hides errors and prevents learning, due to fear of being disciplined. It is important to have a culture where mistakes, regardless of severity, are reported with lessons learned.

The Agency for Healthcare Research and Quality (AHRQ) explains that “a just culture focuses on identifying and addressing systems issues that lead individuals to engage in unsafe behaviors, while maintaining individual accountability by establishing zero tolerance for reckless behavior.”<sup>1</sup>

patient experience. This communication enhances the board’s discussion.

- **Reporting:** Create an environment of trust to address accountability in a fair and just manner so blame is not automatically placed when an error occurs; encourage employees to view patient safety as an integral part of their jobs, and to internally report safety concerns, broken systems and processes, actual errors, “near misses” and other opportunities to improve safety.
- **Informed Action:** Understand and analyze data, including “near misses” (also known “good catches”) that could have impacted patients but were averted.
- **Teamwork:** Continually train in both team skills and job-specific competencies, encouraging caregivers to consistently work in a collaborative manner in which each individual has a responsibility to identify and/or act to prevent potential safety errors.
- **Focus on Improving Systems and not Blaming Individuals:** The focus should continually be on fixing systems and processes so that the error cannot occur again.

### Engaging Physicians and Building Medical Staff Partnerships for Quality and Patient Safety

The board is responsible for setting direction, strategic goals, and oversight. This accountability cannot be simply delegated to the health system leaders and medical staff. High performing organizations have common, aligned goals set by the board and jointly developed by the administration and physicians. The medical staff plays an important role in the delivery of safe, high quality care to patients and in achievement of the organization’s goals.

**Define a Compact.** One way to build a bi-directional relationship is by establishing clear expectations that physicians should anticipate from the organization, and expectations that the organization anticipates from its medical staff. This is called a “compact.” A clearly defined compact can help build alignment with existing physicians and also aid in future recruitment efforts—physicians looking for a partnership and shared vision may be drawn to organizations with a clearly defined compact, while others could be deterred by the concept.

**Strengthening Board and Physician Communication.** The contrasting cultures of physician independence and

### The Impact of Workforce Cuts

A report by the National Patient Safety Foundation's Lucian Leape Institute describes how failure to support a healthy workforce results in harm:

**"The costs of burnout, litigation, lost work hours, employee turnover, and the inability to attract newcomers to caring professions are wasteful and add to the burden of illness."**<sup>5</sup>

autonomy versus board shared decision-making may be difficult to overcome, but can be achieved through board-medical staff communication, relationship-building and mutual respect. The board sets the tone for the health system by creating a "practice-friendly environment" through strategic understanding of the clinical and medical staff issues, ensuring adequate staffing, quality employees, efficient and effective processes, and providing adequate resources.

Board/medical staff relationships can also be enhanced through additional efforts, such as retreats and workshops, one-on-one meetings or focus groups that allow both groups to understand one another's viewpoints. Conducting a medical staff needs assessment can also help the board to understand physician needs. Physician involvement in strategic planning allows mutual understanding of long-term issues and a shared long-term vision.

**The End Goal: Improved Care.** If boards struggle to get physicians engaged with a quality and patient safety plan, explaining how implementing the plan will provide their patients with better care will build and sustain physician support. It is important for providers to know that the efforts will result in fewer errors and less harm to their patients, itemizing the specific desired outcomes as a result of the changes.

It is helpful to engage physicians early with a respected physician champion playing an integral role in the decision-making and implementation process, clearly communicating that physicians will be instrumental in developing and implementing the patient safety plan. The reward will come for the physicians when they see their patients are receiving improved care.

### Planning and Implementing a Quality Dashboard

It is important that hospital trustees understand the quality of care provided at their hospital or health system. A hospital's dashboard is a clear, straight-forward approach for boards to understand if they are providing poor, average or exceptional, quality.

**"Safety Across the Board" Dashboard.** Some hospitals combine their comprehensive quality dashboard measures together into what is called a "safety across the board" measure. The amount and complexity of data can be daunting, and interpretation of the information is important for board members to understand. Definitions of the performance metrics should be available for board members' reference.

Data should be presented in trended graphs. They can either be rates (%) and/or counts. When interpreting quality data, boards should think about:

- How do we compare with other organizations, within the health system? Across the region or country? Are we in the top 25% of performance? The top 10%? How do we compare with ourselves over time?
- Are there five points on a trend graph going in the direction of improvement? One or two points do not show a trend. Often three-year trends are utilized for this reason.
- How is the data impacted by seasonal variation? Are there other fluctuations which are important?
- Has care improved for all patients, or do certain ethnic or racial groups have different results? How is care equity being addressed?

Although staff have the best intentions, too often reports are too detailed and board members either do not have the opportunity or do not feel comfortable asking basic questions about quality reports. When this happens, the opportunity for strategic discussion is lost.

To maximize the impact of quality reporting, graphs should be labeled with terminology that board members understand. Reports should clearly highlight the trends and information needing discussion.

### Measures in a Typical Quality Dashboard

A robust dashboard will typically include the following measurements:

- Quality measures posted on the CMS Hospital Compare website
- Joint Commission performance measures (perinatal measures, findings from accreditation surveys, compliance with national patient safety goals)
- Patient satisfaction measures (known as HCAHPS) posted on the CMS Hospital Compare website
- Overall mortality and condition-specific (such as sepsis) mortality
- Readmissions within 30 days for all-causes, and for Critical Access Hospitals, transfers after the first 24 hours
- Cesarean rate for low -risk, first delivery women (NSVD)
- Opioid and broad-spectrum antibiotic usage
- Infection measures from the National Healthcare Safety Network (NHSN), including surgical infections, urinary catheter infections, ventilator infections, central line infections, MRSA, and C- difficile infection rates
- Employee injuries
- Emergency department throughput time, from arrival to departure (for both admitted and discharged patients)
- Radiation dosage in children and use of MRI and CT modalities
- Outpatient measures such as failure to follow up on diagnostic test results and 'no show' rates
- Nursing-sensitive measures, including falls and pressure ulcers
- Physician-sensitive measures (Physician Quality Reporting System (PQRS)), such as aspirin for heart attack and diabetic control with Hemoglobin A1c
- Adverse (serious safety) events, including medication errors
- Medication adverse events, such as hypoglycemia, anticoagulation, opioids
- State-specific reported measures
- Key physician recruitment/vacancy areas
- Nurse vacancy and turnover rates
- Other facility specific topics, such as medical malpractice claims and community health measures (examples may include diabetes, asthma, and obesity)

**Staff, Patient and Family Dashboards.** Transparency builds trust and a sense of partnership with employees as well as patients and families. Hospitals and health systems should post quality and patient safety data in units relevant to the care provided. Examples of data to post on nursing units are hand hygiene results, pressure ulcers, falls, and infection rates. In addition, if asked, employees, patients and families will often have improvement suggestions. The board should encourage leaders to have a process in place to gather and respond to suggestions for improvements to the patient care experience.<sup>3</sup>

### Addressing Adverse Events

There are times when things do go wrong. Management has the responsibility for immediately looking at what happened and documenting the causes and effects of the adverse (or serious safety/sentinel event). Some states (such as California) require prompt reporting to the department of health when certain safety events occur. Lack of reporting incurs fines, which escalate when there are multiple events and/or lack of timely reporting. The general approach for board notification and discussion revolves around the severity, breadth and impact of the event.

For example, if there is an active shooter who kills staff and/or patients, that would require urgent board notification. If there is a medication error which does not injure a patient, this is usually included in incident reports and summarized for the board (or the quality and safety committee of the board) at their next meeting.

**Informing Patients.** Patients (or in the case of neonatal and pediatric patients, their parents) need to be informed about the adverse event, even if there is no harm to the patient. In the past, patients were often not told about adverse events for fear of malpractice. There was also a belief that the hospital or physician had the right to decide if the patient truly wanted to know about the event.

**Hiding adverse events is considered unacceptable.** Society expects disclosure by all industries when a serious safety error occurs (such as a chemical spill from a railcar). Examples often discussed in the media are the expectation of disclosure of problems by the government, police, and automobile manufacturers, among others. The same expectation is present in health care. Providers are expected to be honest and upfront with their patients. It is not enough to avoid the subject or fail to disclose an event simply because the patient did not ask.

Being hesitant to tell a patient about an adverse event due to fear that they may pursue litigation or because the physician is embarrassed are understandable concerns. Admitting an error is never pleasant, but transparency remains essential for improving future patient care.

There is general agreement that:<sup>4</sup>

1. Patients and families want to know what happened, particularly if harm occurred.
2. Patients and families can often tell when they are not being told the complete truth. They become afraid and angry. This is frequently the cause of lawsuits.
3. Studies have shown that the best way to avoid a lawsuit is by having a good relationship among the provider, patient and family.
4. Disclosure helps patients and their families begin to heal and decreases the likelihood of a lawsuit.
5. Patients and families are human. They will likely become angry when the information is disclosed and will want to know what the organization is doing to prevent the error from occurring again.

### Components of Patient Safety Success

- The board is engaged and reviews quality data at each board meeting
- A CEO with a strong track record (results) is actively engaged in quality and safety and understands and acts on the opportunities for improvement
- The CEO's compensation is linked to quality and safety results to at least the same degree as financial success
- There is recognition that patient safety errors occur in all health care settings
- There is agreement that the current error rate is unacceptable and zero harm is the goal
- There is a culture of fixing the "system" when errors are identified and discussed
- The organization and its leaders hold physicians accountable for undesirable behavioral and clinical practice variations
- Data is posted on units so that care delivery staff see and can participate in progress
- Accountability for quality and safety reporting to the board is in place in all areas of the organization
- The board allocates resources for quality improvement and error prevention
- Physicians are engaged and active partners in achieving quality aims

6. Patients should not be billed for care that harmed them or for the care that fixes the harm.

**The Board's Role.** Boards should hold administrators responsible for supporting and helping staff that were involved in the harm. These staff are often referred to as "second victims." Caregivers come to work every day wanting to help patients get better. Harming another person is devastating. The risk of suicide by the care provider can be high, particularly if a patient dies.

When errors do occur, the board should ask the following questions:

1. When did we tell the patient or their family? What was their reaction?
2. What support are we providing the staff? Specifically, how and who will follow up with the involved staff?

### Ensuring that Leaders Establish and Sustain a Safety Culture

In its report "Free from Harm: Accelerating Patient Safety Improvement Fifteen Years after *To Err Is Human*," the National Patient Safety Foundation recommended four tactics to ensure that leaders establish and sustain a safety culture. The tactics are specific to the responsibilities of hospital boards, governing bodies and leaders.<sup>5</sup>

- Refocus the boards of organizations to guide and be accountable for patient safety through governance, goal setting, and ensuring that executives and all levels of management value and prioritize safety (for example, ensure that safety data and stories are presented at every board meeting).
- Ensure that leadership and governance bodies develop and implement robust processes to initiate and sustain transformation to a culture of safety and respect, specifically one that encourages honesty, fosters learning, and balances individual and organizational accountability.
- Develop and implement operational culture change "playbooks," based on existing practices and operational experience with successful culture change efforts.
- Create a new norm that every trustee, leader, and regulator completes a foundational program in patient safety science (such as just culture, systems).

3. How are we examining our systems to make sure this will not happen again?

4. Are we blaming nurses or physicians when it was our systems that failed?

**The Role of the Media.** The media may become interested if they become aware of an adverse event. Board members should not participate in interviews with the media unless asked by the hospital administrator or public relations staff. These requests are very rare and should be avoided if possible.

In the occasional instance where board members do need to interact with the media, keep in mind the following:

- Do not lie or stretch the truth.
- Do not consider anything "off the record."

- Define the message the hospital or health system wants to communicate before beginning the interview.
- Articulate your message in quick one or two sentence explanations so they are easily quoted.
- Don't engage in debate. Remember, they have the pen and you will always lose.
- Take the advice of the public relations staff. Do not do the interview by yourself.

If a story with a negative tone is released or is factually wrong, it is possible that your organization's public relations department may elect not to respond back to correct the story. A correction often extends the life and attention to the story, which many not be in the organization's best interest.

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# Q: How does the board ensure a healthy, equitable community?

The sobering fact of health inequity has been spotlighted through the recent experience of COVID-19 infections and racial injustice in the United States. As a result, boards and senior leaders are deepening their commitment to advancing health equity. Moving forward has significant implications that are important for trustees to understand.

**H**ospitals and health systems have always played a unique role in our society and in the health of their communities. Improving the health of the community is the driving mission for most, if not all, hospitals and health systems. Health equity is closely aligned with that mission. Boards of trustees, along with senior management, share the responsibility for setting overall organizational strategy. Significant disparities in health outcomes across our society have led boards and leaders to focus on health equity as a strategic priority.

## Understanding Health Equity

Twenty years ago, the Institute of Medicine urged a call to action to improve the American health care system. Its influential report, *Crossing the Quality Chasm: A New Health System for the 21st Century*, addressed six key dimensions in which our overall health care system functions at far lower levels than it should. Its aims for improvement stressed that quality health care should be safe, effective, patient-centered, timely, efficient, and equitable.<sup>1</sup>

Although considerable progress has been made in most of these quality dimensions over the past two decades, the sixth dimension – *equitable (or equity)* – has lagged behind the others. Equity is defined as everyone having a fair and just opportunity to be as healthy as possible<sup>1</sup>. This requires removing obstacles to health such as poverty, discrimination, and lack of access to good jobs with fair pay, quality education and housing, safe environments, and health care.<sup>2</sup> Health equity remains a complex and persistent societal challenge.

Every community experiences health inequities—the uneven distribution of social and economic resources that impact an individual’s health. The unavoidable cost related to a lack of health equity includes the medical costs related to preventable chronic disease and the overutilization of health care resources. More importantly, health inequities have a devastating effect on the ability of all people in our communities to live their healthiest and best lives.<sup>3</sup>

## What Contributes to Health Inequity?

In the U.S. each year, millions of people face food insecurity, homelessness, or an inability to access medical care, sometimes simply due to lack of transportation. For the elderly on fixed incomes, the high price of prescriptions, vision care, or oral care may make it difficult for them to access needed services. Families may lack health insurance or the ability to navigate the health system due to language barriers. Some of our fellow community members live in what are termed “food deserts,” lacking in available fresh fruits and vegetables, resulting in an over-reliance on fast food. Social isolation or housing in areas where violence has become a regular occurrence also impacts overall health.

## How Much of a Problem are Disparities?

Although health inequity was identified as one of the top six issues by the Institute of Medicine back in 2001, the COVID-19 pandemic greatly elevated the depth of the challenge. According to the Centers for Disease Control

and Prevention (CDC), Black, Latino and American Indian or Alaska Native people are disproportionately affected by COVID-19, often having three times the rate of hospitalization and double the death rates as their white counterparts. This disparity was demonstrated in a widespread manner that spans the country, throughout hundreds of counties in urban, suburban and rural areas, and across all age groups.<sup>4</sup>

Experts cite many possible reasons for disparities, including what are often referred to as **social determinants of health**, defined by the World Health Organization (WHO) as the circumstances in which people are born, grow up, live, work and age, and the systems put in place to deal with illness.<sup>5</sup> Examples of social determinants that may have impacted coronavirus infection rates include multi-generational or crowded housing, food insecurity, lack of health insurance, essential jobs that cannot be done remotely, and use of public transportation.

Some research demonstrates that up to 80% of health outcomes are driven by these social determinants. The American Hospital Association (AHA) adapted the World Health Organization definition in its framework to understand these important factors, which include housing, food, education transportation, violence, social support, employment and health behaviors.<sup>6</sup>

### The Board's Leadership Role in Advancing Health Equity

Hospitals and health systems alone cannot address all the social determinants of health. However, they can have a substantial impact. The specific approaches will vary greatly depending on the organization and the needs of the communities served.

How does the board promote and advance health equity? Boards, senior executives and clinical leaders set the mission, values and strategic priorities for the organization, playing a critical role in ensuring that health equity is in some way addressed, with defined improvement actions and metrics to measure progress.

#### **Conducting a Community Health Needs Assessment.**

An excellent place to start is with a community health needs assessment that many hospitals conduct every three years. This assessment is a federal requirement for

### Health Equity: Key Concepts and Terms

**Health** means physical and mental health status and well-being, distinguished from health care.

**Opportunities to be healthy** depend on the living and working conditions and other resources that enable people to be as healthy as possible. A group's opportunities to be healthy are measured by assessing the determinants of health—such as income or wealth, education, neighborhood characteristics, social inclusion, and medical care—that they experience. Individual responsibility is important, but too many people lack access to the conditions and resources that are needed to be healthier and to have healthy choices.

**A fair and just opportunity to be healthy** means that everyone has the opportunity to be as healthy as possible. Being as healthy as possible refers to the highest level of health that reasonably could be within an individual's reach if society makes adequate efforts to provide opportunities.

**Achieving health equity** requires actions to increase opportunities to be as healthy as possible. That requires improving access to the conditions and resources that strongly influence health — good jobs with fair pay, high-quality education, safe housing, good physical and social environments, and high-quality health care — for those who lack access and have worse health.

Health equity and health disparities are closely related to each other. **Health equity is the ethical and human rights principle or value that motivates us to eliminate health disparities.** Disparities in health and in the key determinants of health are how we measure progress toward health equity.

**Progress toward health equity** is assessed by measuring how these disparities change over time.

Source: The Robert Wood Johnson Foundation

# The Board's Role in Advancing Health Equity

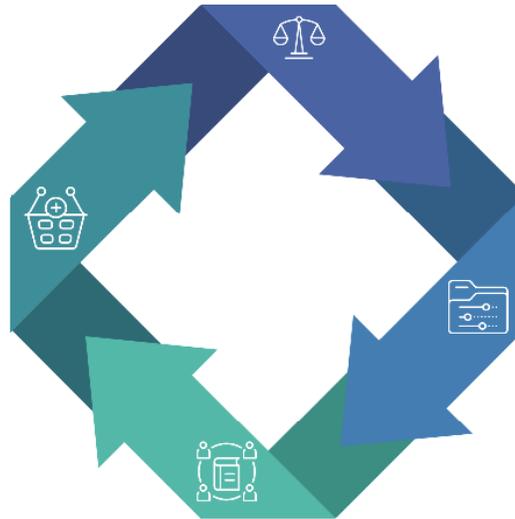
Four Leadership Actions for Hospitals and Health Systems

### Establish Strategic Intent

Mission, values and strategic priorities should reflect a strong commitment to health equity and addressing disparities. Use existing strategic initiatives as "touchstones" for moving forward.

### Lead through Collaboration

Collaboration is essential to effectively addressing health equity. Move beyond the "four walls of the hospital" for greater impact. Engage trustees as ambassadors for building relationships with public health and community-based organizations.



### Reflect, Understand and Learn

Look both internally and externally to better understand inequities. Establish a culture of equity in which all staff and providers are motivated to address disparities. Learn from best practices and other organizations pursuing health equity.

### Ensure Meaningful, Measurable Goals

Unless specifically measured, disparities in health care may go unnoticed. Equity should be a key part of quality improvement efforts and community outreach programs.

all tax-exempt hospitals and requires the hospital to: define its community; identify and engage stakeholders; collect and analyze data; prioritize community health issues; document and communicate results; and plan and implement strategies to address these needs, and evaluate progress.<sup>7</sup>

**Building a Deeper Understanding of Needs.** Many hospitals use other tools, such as the *County Health Rankings and Roadmap*, to assist them in developing their triennial assessment.<sup>8</sup> Information on a wide spectrum of variables, such as racial, ethnic, education, and language demographics of the community, along with data on factors such as average life expectancy, chronic disease rates, violence, substance abuse, obesity, food insecurity, tobacco use, poverty levels, and unemployment will help the hospital identify the most urgent unmet health needs in the community. Feedback from trusted community stakeholders will also contribute to a deeper understanding of community needs.

The assessment will also identify potential partnership opportunities for the hospital in the community, such as with Federally Qualified Health Centers, county or city

health departments, food pantries, homeless shelters, faith communities, and social service organizations.

**Equity Pledge.** Another example of a specific strategy that many hospitals have undertaken is the *#123forEquityPledge* — an initiative of the American Hospital Association and the Institute for Diversity and Health Equity. The pledge asks hospital and health system leaders to work to ensure that every person in every community receives high-quality, equitable and safe care. Hospitals and health systems that take the pledge can also report their specific actions, challenges, and results to share and learn from and with other organizations.<sup>9</sup>

**IHI Framework.** One approach to consider using is the Institute for Healthcare Improvement white paper, *Achieving Health Equity: A Guide for Health Care Organizations*.<sup>10</sup> The framework provides five key components for health care organizations to improve health equity in the communities they serve:

- Make health equity a strategic priority.
- Develop structure and processes to support health equity at work.

## Critical Questions Every Hospital Board Needs to be Able to Answer

### The Board's Role in Advancing Healthier, More Equitable Communities

#### Health Equity: Questions for Board Consideration

- Is health equity a strategic priority for our hospital/health system?
- How does our board promote and advance health equity?
- Does our hospital/health system have strategies in place to partner with organizations that represent and serve diverse groups in our community?
- How is the diversity of the communities we serve reflected in our board's composition and the senior management team?
- Has a team from our hospital/health system met with community leaders to seek their advice on how to work together to address the health inequities in the communities we serve?
- Does our hospital/health system emphasize the importance of accurate, consistent and systematic collection of data on patients?
- Does our hospital/health system monitor our patient population to properly care for and serve gender, racial, ethnic, language, religious and socio-economic differences and needs?

- Deploy specific strategies to address the determinants of health on which the health care organization can have a direct impact.
- Decrease institutional racism within the organization.
- Develop partnerships with community organizations to improve health and equity.

disparities exist within the organization and view inequality as an injustice that must be redressed, that organization has a strong culture of equity.<sup>11</sup>

While fostering a culture of equity can be challenging, it can have significant benefits. When an organization values a culture of equity, the staff share a definition of equitable care and places a high value on its delivery, which can yield concrete benefits.<sup>12</sup>

#### Meaningful, Measurable Goals

Although it will be up to senior management and clinical leaders to ensure that the strategic improvement activities are implemented in practice, **the board is responsible for seeing that the plans are being followed.** Metrics should be established in advance to evaluate progress toward goals. This performance data should be reported to the board or its designated committees (e.g. Quality, Strategic Planning, or Community Outreach) at defined intervals, such as quarterly. Data that the board will want to monitor will, of course, depend on the specific improvement initiatives that are underway, and with enough specificity to identify trends and gaps.

Even the most well-intentioned effort to reduce disparities is less likely to succeed if it's not part of a broader culture of equity. When staff recognize that

#### Prioritizing Collaboration

Individual health care organizations cannot independently do everything that is needed to fulfill their mission commitment to the community and health equity. Thinking and operating independently fails to leverage and maximize the opportunities that come with joint efforts and shared resources. These realities are prompting hospitals and health systems to develop partnerships with a wide range of other agencies, including public health, social service organizations and other hospitals in their communities.

Developing and governing successful community partnerships requires high levels of trust and engagement among community agencies and organizations, coupled with the ability to envision a future

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### The Board's Role in Advancing Healthier, More Equitable Communities

where health and health care looks different and is better than it is today.

There is no single model of partnership or governance that will meet each community's unique needs. As boards evaluate and prioritize the community's needs and the depth of the organization's resources, trustees must know the power and potential of leveraging community partnerships can help to fulfill the organization's mission and commitment to achieving health equity.

### Funding Health Equity Initiatives

A major responsibility of the hospital board is to ensure that strategic activities are adequately funded, including those addressing health equity. This will require the board and senior management to carefully consider and prioritize what is feasible to accomplish, weighing community needs with financial capabilities. The hospital may need to seek external grant funding or philanthropy in order to fund health equity initiatives, something that board members may be called upon to support.

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# Q: How does the board ensure strong and effective executive leadership?

Hospital CEOs and their boards must build and sustain vibrant, trust-based relationships in order to successfully navigate the opportunities and challenges in today's complex and fast-paced health care world. That trust requires leadership excellence in a number of key areas, including clear and consistent communication, adherence to well-defined roles and responsibilities, and clear CEO performance expectations and accountabilities that are appropriately rewarded using responsible compensation assessment policies and procedures.

**T**he board/CEO relationship should be a trusting partnership, where both trustees and the CEO work together, united as a team to achieve the greatest level of organizational success. The relationship can be enhanced through a clear understanding of one another's needs and expectations, clear and consistent communication, shared goals and objectives, dialogue-rich and purposeful meetings, and a constant sharing of timely and critical information. Those are the ingredients of a successful partnership and relationship.

Good chemistry between the board and its CEO is vital to organizational success. Mutual respect, candor and absolute trust distinguish the very best board/CEO relationships. Trust, however, is the most critical component for boards and CEOs. Close communication and effectiveness are the results of trustful relations.

## Building Trust

Trust plays a vital role in the ability of the CEO and trustees to communicate openly and honestly. Without trust, individuals may be hesitant to participate in discussions, raise issues, or share their viewpoints.

In order to build mutual trust, the board and the CEO must rely on one another for support, consultation and advice, and complement one another's strengths and responsibilities.

The CEO must build a positive rapport and a professional relationship with all board members. He or she must understand clearly what motivates each trustee to be involved with the organization, and be knowledgeable about the interests and needs of each individual trustee.

The CEO must also be aware of any gaps in trustees' understanding of current issues and trends, ensure that regular board education responds to trustees' needs, and encourage trustees to learn and ask questions in an open, safe environment. CEO attentiveness to individual trustees' needs demonstrates interest and support, and helps build a positive, trustful environment for dialogue and decision-making to take place.

**When the board/CEO relationship is good** the board has supreme confidence in the CEO's ability to lead the organization, and in the board's ability to provide encouragement, support and outside perspectives to help enable that leadership. When it's good, the board and CEO are able to work together in a collaborative

fashion to design clear, focused approaches to challenges and issues, because they address the right issues in the right way at the right time.

**On the flipside, when the relationship lapses** and ends up in the “relationship ICU,” persistent questions about focus, intent and appropriateness permeate board discussions and inhibit effective board decision making. Much second-guessing takes place, oftentimes behind the scenes or in the parking lot. Coalitions and factions begin to form and important decisions are tabled due to uncertainty or a lack of trust. A downward spiral of trust and confidence results.

### Creating Success: Mutual Needs

Establishing a successful relationship takes work on the part of the board and the CEO. There are a number of ingredients inherent in a good Board/CEO relationship, including:

- Communication is clear, concise and accurate, and candor is the order of the day;
- Both the board and the CEO are “on the same page,” and display a mutual understanding of issues from their own unique perspectives;
- Roles, responsibilities and accountabilities are clear and well-expressed;
- The board has a clear understanding of its policy and strategic “place” in the leadership continuum, and egos are not allowed to suppress the important work at hand; and
- A strong sense of synergy results from a mutual understanding of what both the CEO and the board bring to play in tackling the complex challenges that face the organization.

### Purpose Wandering

Board members sometimes, knowingly or unknowingly, begin to wander into the CEO’s domain, and the results of that meandering can be problematic. To avoid “purpose wandering,” roles and responsibilities should be clearly expressed in writing. This helps define the fine

## Board and CEO Needs

### Board Needs

- An understanding of emerging issues and challenges impacting the organization.
- The CEO’s perspective of the barriers to success.
- Clarity around how they can be the best leadership asset to the CEO and the hospital in dealing with these issues and barriers.
- Crisp, clear and concise overviews that help the board keep their thinking at a high level, and avoid the tendency to “wander” into operational areas that are inappropriate.

### CEO Needs

- An understanding of the information and perspectives the board requires in order to lead with purpose and vision.
- A curious board.
- A board with a culture of candor and commitment, offering energetic participation, creative thinking and a willingness to challenge the status quo.

If the board/CEO relationship is not operating at a productive, high-level, there is always the looming potential for leadership to descend into a destructive spiral of mistrust, miscommunication and misunderstanding.

line between strategic leadership and operational leadership. Too often roles and responsibilities are unclear and unfocused. A formal, written set of roles and responsibilities will help prevent both the board and the CEO from inappropriately trying to assume the other’s responsibilities

**The What vs. the How.** While the board is responsible for the high-level strategic focus and direction of the organization, the CEO and his or her administrative team is responsible for the day-to-day operations and details of designing action plans implementing the strategic plan. One is the “what”, the other is the “how”.

**The Board’s Focus.** On a global basis, the board is responsible for the selection and evaluation of the CEO,

high-level strategic planning, the development of policies and procedures and approving decisions with strategic implication - such as budgets, facility and equipment decisions and personnel policies. These specific policies or procedures are often recommended to the board by the administrative team, who rely on the board to review the information and discuss the pros and cons of each decision before coming to a consensus.

**The CEO's Focus.** In contrast to the board's high-level focus on long-term planning and approval of budgets and policies, the CEO is responsible for ensuring the day-to-day operations fulfill the board's long-term plan for the organization. The CEO provides regular updates to the board about the organization's success in achieving its goals; informs the board about current and emerging challenges facing the organization; and presents budgets, capital purchases, personnel decisions, fees and billing and collection policies, and potential new policies or procedures to the board for review and approval.

When trustees and the CEO focus on fulfilling their respective roles, the result is an organization that is able to leverage the best resources of both of these important leadership assets.

### The Board Meeting: The Center of Communication Success or Failure

The board meeting is the center of communication and relationship success or failure. Unfortunately, board meetings are often not as effective as they should be due to poorly planned agendas, time wasted on routine reports and too much emphasis on operational issues and details, thereby frustrating the CEO.

Board meetings should focus on the vision, values, governance policies and strategic leadership issues critical to future success. It's essential that all board members be fully-informed about important issues, and that agendas be geared toward the strategic future of the organization. If boards only ensured this one single leadership focus, board and CEO relations in hospitals across America would improve dramatically.

### Define the Responsibilities in a Matrix

A good idea for delineating board and management responsibilities is to develop a matrix of responsibilities in a broad range of areas, such as hiring, budgeting, personnel policies, compliance, advocacy, community relations, quality, credentialing and more. The group or individual's specific responsibility may then be clearly defined, and gray areas can be avoided. The matrix should briefly define whether the individual or group develops, directs, reviews, provides input, and/or approves work in each area.

**Ensuring Effective Meetings.** Effective, high-performance boards spend most of their time on important strategic and policy issues. They engage in rich discussion and dialogue, assess outcomes, and participate in ongoing education. They focus on the issues that are most critical to the organization, and where they can have the greatest impact.

One way to ensure that meetings are focused on where the hospital is headed, rather than where it has been, is to design the agenda around the "25/75" rule. According to many governance experts, no more than twenty-five percent of meeting time should be spent discussing past issues, and on retrospective reporting and analysis. At least seventy-five percent of board time should be dedicated to issues in which the board has the greatest impact: planning, setting policy, making critical decisions, and setting future direction.

The CEO plays a major role in this area. He or she should ensure that trustees receive materials to review well in advance of board meetings. In addition, the CEO should work closely with the board chair to ensure that meetings are orchestrated to maximize meaningful dialogue and a focus on the future.

**How Did We Do?** The first five minutes after the board meeting count, too. Many boards pack up and leave the moment adjournment is announced. But what if you knew your board meetings could become more energized and effective if you gave just five more minutes of your time at the close of each meeting?

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Building Bonds: Pathways to Better Board/CEO Relationships

Boards that conduct the most efficient and effective meetings fine-tune their meeting work through the use of individual board meeting evaluations. These evaluations can be completed in five minutes or less. Simple questions might include:

- Did we focus on the right issues?
- Did all members participate in an active way?
- Did we develop our “knowledge capital” with pinpointed board education?

Comments could also be sought regarding the helpfulness of board materials, meeting direction and focus, issues as they relate to the strategic plan, fairness of deliberations, and a sense of whether each member left the meeting knowing what he/she needs to do next. Completing these individual meeting evaluations helps the CEO and board chair to continually refine the board agenda, and respond to board needs.

### Executive Sessions

One of the most productive places for candid and forthright board/CEO discussion to take place is in an executive session.

Executive sessions are settings that allow the board to handle confidential matters behind closed doors without staff or “outsiders” present. They typically take place following adjournment of the regular board meeting, but they may also take place before or during the meeting.

**Typical Agenda Items.** Appropriate topics for an executive session may include personnel matters, investigations or updates on alleged improper conduct, CEO performance assessment, legal negotiations and financial discussions with an auditor, or other topics that must remain highly confidential for a limited period of time. Items appropriate for executive sessions will vary if the organization is a public or private hospital, and depending upon state laws and regulations.

In addition, there are times when the board simply needs to have an opportunity to openly and confidentially share opinions among board members on a particular topic. In order to be effective and not misused with a “shadow-agenda,” executive sessions should address only pre-determined issues and not delve into discussion and decision-making that could more appropriately be conducted in the regular board meeting. The executive session is not an excuse to avoid difficult topics and conversations, or inappropriately hide board deliberations behind closed doors.

### Legal Language Trustees Need to Understand

<b>Disqualified Person</b>	A “disqualified person” in compensation matters, according to the IRS, is any executive who can exercise “substantial influence” over the organization. Examples of persons with substantial influence include persons making substantial contributions to the organization, those who draw compensation based on revenues from activities under the CEO’s control, persons with managerial authority, or who serve as key advisors to a person with managerial authority, and trustees actively involved on the board at the time an executive of substantial influence earns an “excess benefit.”
<b>Excess Benefit</b>	An “excess benefit” is an economic benefit that exceeds the value of the disqualified person’s services. The excess benefit is the difference between the value of what the organization receives, and the value of what’s been given to the disqualified person. An excess benefit transaction can occur when the disqualified person’s compensation is considered above fair market value, or is deemed unreasonable.
<b>Intermediate Sanctions</b>	“Intermediate sanctions” are financial penalties imposed by the IRS on managers of tax-exempt organizations that engage in excess benefit transactions. You never want to see a letter from the IRS with the words “immediate sanctions” on it.

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Building Bonds: Pathways to Better Board/CEO Relationships

**Good Reasons for Executive Sessions.** Holding regular executive sessions can go a long way toward building a strong sense of connection and communication between the board and the CEO. The executive session enables both to engage in the kind of dialogue that is oftentimes difficult during regular board meeting when staff members and, in the case of public hospitals, the press and members of the community, may be in attendance.

**Rules of Engagement.** The following rules are critical to observe in order to ensure successful executive sessions:

- Executive sessions should be short and highly focused;
- They should never be used as a method for operating “under the radar” of the regular board meeting;
- They should not be an ad hoc, anecdotal free-for-all;
- If the CEO is not present, he or she should be provided with a summary of the session immediately after the meeting; and

- Sessions should be held with the CEO’s support and approval.

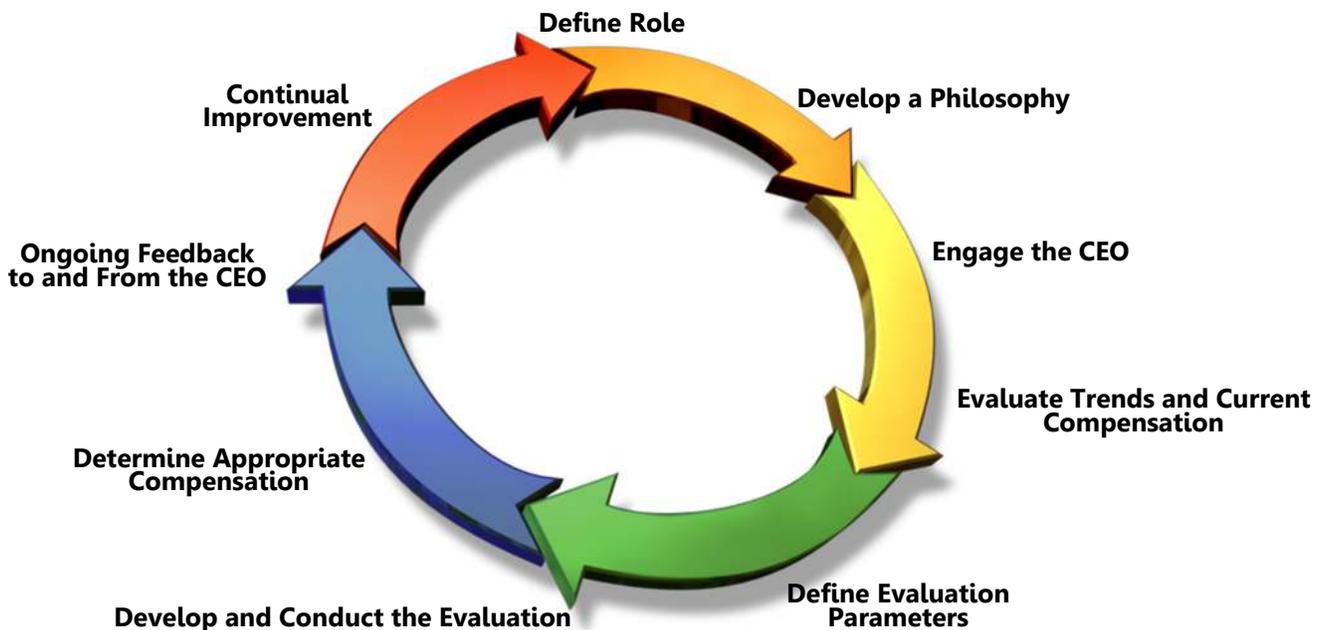
### CEO Compensation and Evaluation

One of the most important board responsibilities is hiring, motivating, and retaining the hospital CEO. Maintaining clear performance expectations and ensuring a regular compensation and performance review of the CEO encourages frequent and open communication between the board and CEO, and helps ensure the CEO’s performance drives achievement of the hospital’s goals.

Throughout the process, it’s critical that board members maintain an organization-wide focus, ensuring that the CEO’s compensation is aligned with the organization’s goals, and that no conflict of interest exists between board members and CEO compensation decisions.

**Defining the Board’s Role.** When determining CEO compensation the board should take into account a variety of factors, including:

### The CEO Compensation and Evaluation Process



## Critical Questions Every Hospital Board Needs to be Able to Answer

### Building Bonds: Pathways to Better Board/CEO Relationships

- Overall organizational performance in meeting board expectations;
- The challenges and risks addressed by the CEO;
- A comparison of the CEOs compensation with his or her peers who lead similar sized organizations;
- The risk or volatility of the position;
- The CEO's tenure in the organization; and
- The implications of the loss of the CEO in the event that inadequate compensation causes the CEO to seek employment elsewhere, or become the target of executive recruiters who are constantly on the lookout for high performers to recruit for their clients.

The compensation and performance evaluation is straightforward, but it does include a number of key steps that should be undertaken in a logical and progressive order.

The process begins with a clear definition of the role of the compensation and performance review process in building leadership loyalty and commitment, and ensuring leadership success and continuity. In addition, a compensation committee should be established, and its purpose should be clearly defined in the document

that includes the committee's mission, composition, objectives and action plans, responsibilities and time frames, and projected outcomes.

**The Compensation Philosophy.** Once the board's role has been clearly defined, a compensation philosophy should be developed, which includes the role of CEO compensation in stimulating high-performance, and as a reward for achieving board-approved priorities. The philosophy should outline the organization's position regarding the level CEO compensation should be at relative to the CEO's peer group, and define the organization's philosophy on pay-for-performance. It should be tailored to and support the organization's culture, mission and strategy, and it should explain the values and goals the organization seeks to reward.

**The Compensation Policy.** Once the compensation philosophy has been developed, a policy to support the philosophy should be created. Like the philosophy, the compensation policy should be aligned with the hospital's mission and strategic goals. It should define such areas as the purpose of the performance and incentive compensation program; the process for controlling and administering the compensation and performance review; the criteria for the identification of incentive targets and the payment of performance incentives; the timeframe for the evaluation process; and

CEO Evaluation Goals
The list below includes typical goals that should be considered in the course of undertaking a successful CEO evaluation process.
1. Expectations should be clearly identified well in advance of the evaluation
2. The evaluation should be a continuous, year-long process culminating in a formal annual performance review, with no surprises for either the board or the CEO
3. The evaluation should provide meaningful feedback to the board on the CEO's success in achieving board-approved objectives
4. The evaluation process should enhance board/CEO working relationships
5. The evaluation should link the attainment of organizational objectives with the CEO's personal performance objectives
6. Data, not subjective assessments, should be the foundation of the evaluation and decisions about compensation
7. Leadership in achieving the mission, values and vision should be a centerpiece of the evaluation
8. Compensation should be driven by specific performance in specific areas, including achievement of quality outcomes

### Typical CEO Evaluation Criteria

The CEO should be evaluated using pre-determined criteria and goals specified in the CEO compensation policy established by the board's compensation committee, and agreed to in advance by the CEO. The evaluation may include a "360-degree" approach that seeks feedback on qualitative performance from the board, medical staff leaders, senior management, and the CEO him or herself. Measurement should also utilize performance in achieving defined objectives, including financial success, patient satisfaction, strategic performance, etc.

#### **Quantitative Measures**

Potential quantitative measures may include, but not be limited to:

- Financial and operating performance, using a variety of ratios, with comparison to peer groups
- Market share growth
- Physician satisfaction
- Employee satisfaction
- Patient satisfaction
- Achievement of hospital strategies/objectives
- Achievement of specified quality measures

#### **Qualitative Measures**

In addition, qualitative measures can help identify how well the CEO performs in several important areas, including:

- Medical staff relations
- Internal operations
- Leadership and strategic development
- Financial development
- Community relations
- Board relations and development
- Communication
- Problem solving
- Ethics
- The CEO's success in accomplishing specific organization and personal objectives defined by the board at the beginning of the evaluation period

For example, in the area of medical staff relations, the CEO may be held accountable for developing medical staff cohesiveness and a strong medical staff working relationship with management and the board; inspiring loyalty among the medical staff to further the strategic objectives of the hospital; and communicating effectively and in a timely manner with the medical staff.

In the area of community relations, he or she may be held responsible for such accountabilities as working effectively with community leaders and with other health providers in the region; encouraging public trust and confidence among the community; and continually maintaining a high awareness of community needs and identifying ways to meet those needs.

details of the process for payment of incentive compensation earned in the event of the CEO's termination, death or disability.

**CEO Engagement.** The CEO should be engaged in the process early-on to ensure that he or she agrees with the compensation committee's work plan, and that there is enthusiastic CEO buy-in to the compensation philosophy. The CEO should provide input to the compensation committee to enable it to best understand

his or her contribution to organizational success. This is typically done later on in the process, when the CEO reports on the results of his or her personal objectives and success in achieving board-defined performance objectives.

**The Compensation Evaluation.** It's at this point that the serious work of the compensation committee begins. The committee should evaluate current trends in CEO compensation and seek out information on comparative

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Building Bonds: Pathways to Better Board/CEO Relationships

salary, incentive compensation and benefits for organizations of similar size around the country. At the same time, the committee can begin to define the parameters for the CEO's evaluation and determine the performance criteria to be used. It is critical to reengage the CEO during this process to ensure that he or she is in agreement that these criteria are appropriate, and that he or she agrees to be held accountable for achieving them.

### What Protects Boards and Individual Trustees?

There are some inherent legal risks in CEO compensation assessment that trustees need to understand. There are three key ways for the board to protect itself and individual trustees in deliberations and decisions about executive compensation:

- Executive compensation must be approved by the governing body, or by a compensation committee whose members have no conflicts of interest;
- The governing body or compensation committee should collect and use relevant data to establish fair market compensation levels when approving executive compensation; and
- The basis for compensation approval must be adequately documented in written or electronic records.

When trustees ensure adherence to these compensation principles, they have what the IRS refers to as "**rebuttable presumption.**" A board has rebuttable presumption on the reasonableness of executive compensation if it approves CEO compensation based on appropriate data that helps determine comparability or fair market value, and documents the basis for its determination at the time it makes its decision.

### The Compensation Committee

The board is solely responsible for ensuring that the CEO is appropriately and fairly compensated. The

compensation committee performs the bulk of the work, and is responsible for ensuring that:

- A current written CEO job description exists and has been reviewed and approved by the CEO;
- There is agreement by the board and CEO on the performance measures that will be used to evaluate the CEO's success;
- There is full agreement with the CEO on the basics of his or her compensation, including base pay, annual incentives, benefits, and additional executive benefits, as appropriate;
- The board has full knowledge of the comparability of the CEO's compensation to that paid to CEO's in organizations of similar size and scope; and
- There is a process for regularly reviewing the compensation strategy to ensure its alignment with the organization's mission and goals, strategies, critical success factors, changes in CEO responsibilities and the dynamics of the health care environment.

### Action Agenda

- Examine your compensation and performance evaluation process and policies. Do they satisfy the IRS's requirements for rebuttable presumption? Do they inspire CEO commitment and loyalty? Do they energize and reward high performance?
- Have a candid conversation with your CEO about your board/CEO relationship. How trustful is it? How can it be improved? What are the barriers to better dialogue and streamlined accountabilities?
- Reexamine your respective roles and responsibilities. What are the major functional leadership areas of responsibility? Where is there a clear delineation of authority and responsibility? Are there grey areas? If so, how can they be clarified?

The compensation committee should utilize benchmarking data that satisfies all IRS requirements, including an examination of compensation levels paid by similar organizations, both taxable and exempt, for comparable positions. It should compare the hospital or health system to organizations similar in size, and utilize compensation surveys compiled by independent firms and/or organizations.

### Conducting the CEO Compensation Review

Boards should consult hospital executive compensation surveys to compare their CEO compensation to defined peer groups. This data is available from a variety of sources and may also be available from your state hospital association. Inflation implications should be considered, and current market trends for base pay and incentive pay compensation structures should be factored into the analysis.

The degree of success of the CEO in achieving board-approved objectives should also be a major factor in determining CEO salary and incentive compensation. Trends in various financial and operating indicator areas, and the organization's financial and operating success over the previous year should be considered by the board of trustees when reviewing the CEO's compensation structure and level. These operating and financial indicators may be compared to other hospitals in the organization's peer group (for example, by revenue, number of beds, geographic location, etc.).

Financial and operating indicators are no longer the only metrics by which to measure successful CEO performance. As organizations face public scrutiny of costs and as they seek to advance and succeed in a value-based health care environment, growing attention is being focused on linking CEO compensation to the organization's value-based performance, quality and community impact. In particular, boards are taking steps to link CEO compensation to the organization's quality metrics and physician engagement, alignment and recruitment.

### Ensuring Performance and Alignment: The CEO Evaluation

Establishing a CEO compensation process is an important first step, but there's more to be done. The CEO evaluation provides the CEO with specific direction on board expectations, and ensures a consistent focus by the CEO on the board's most urgent and critical priorities.

In essence, the evaluation is a process for ensuring continuous leadership accountability, renewal, focus and success. An effective CEO evaluation will:

- Identify and confirm the essential functions and personal attributes necessary to CEO success;
- Provide a valuable opportunity for well-planned, constructive two-way communication between the board and the CEO;
- Identify specific areas requiring increased attention by the CEO; and
- Ensure that the CEO is appropriately rewarded for his or her performance in meeting the board's expectations.

### Communicating Results and Driving CEO Performance Improvement

Communication of the results of evaluation and compensation decisions to the CEO in a timely manner is important in building a climate of trust and maintaining a strong relationship between the board and the CEO. The discussion of the CEO's evaluation should be used as a tool to strengthen the relationship between the CEO and the board, enhancing communication and identifying both strengths and potential areas for improvement. When sharing the results, a meeting should be held with the board and CEO to present the findings and provide the CEO with an opportunity to give feedback.

# Q: What is the board's responsibility for planning for the future?

Building and maintaining focused, accountable and visionary trustee leadership is one of the principal challenges for hospitals in today's turbulent health care environment. Hospital boards face difficult choices in a time of burdensome governmental regulation, inadequate reimbursement, increasing competition and shifting community needs. Complexity, financial strain and demands for a greater level of governance accountability require motivated, knowledgeable trustees who understand how to think and lead strategically in today's demanding environment.

## High-Level Purpose of Strategic Planning

A highly effective strategic plan is not simply a set of strategies, plans, budgets and responsibilities. Instead, it's an ever-evolving process of examination of the market, forces for change, and other current information that helps the board to understand changing dynamics, and continually reshape or fine-tune the hospital's strategic direction.

In essence, strategic planning is an organized, systematic approach for understanding and dealing with the hospital's future possibilities and uncertainties. It takes an "outside in" view of the organization, and what is required to achieve the defined objectives expressed in the mission and vision statements.

In order to be successful, a high-performance strategic plan relies on the viewpoints of a broad range of constituents and stakeholders. The hospital's planners must reach out to people and organizations throughout the community, and engage them in meaningful discussions about their views of the hospital, community health needs, barriers to care, issues of access and more. Typically, this is accomplished through a community health needs assessment, interviews, surveys and focus groups with physicians, employees, business leaders, elected officials, opinion leaders and

others whose views are important to understand in shaping strategies for a successful future.

The strategic plan should also help the hospital's leaders determine a meaningful, realistic, challenging and compelling vision of the future. The key for the board is to ensure that the hospital's vision truly means something. Finally, a high-performance strategic planning process ensures a clear understanding of the resources required for strategic success, and the accountabilities of everyone in the organization for performing their part in ensuring strategic success.

## Three Important Truths to Understand About Strategic Planning

While it can seem to be an overwhelming and highly detailed process, in the final analysis there are three important truths that hospital boards should understand about strategic planning.

1. ***First, board members don't need to know everything there is to know in order to make intelligent decisions and wise choices about the future.*** There is an overwhelming amount of information available at any given time that may be relevant to the planning process. Trustees need to

## Critical Questions Every Hospital Board Needs to be Able to Answer

### The Board's Role in Strategic Planning

have assurance that senior leadership is asking the right questions and utilizing the appropriate tools to ensure an evidence-based, outcomes-focused process.

2. **Second, because of the rapid pace of change in health care, what organizations know today is very different from what they're likely to know tomorrow.** That means that strategic planning processes, structures and systems need to be nimble and flexible, and that the plan must be adaptable to new information and new realities of the future that have not yet been envisioned.
3. **Third, trustees will never know everything they'd like to know to be totally confident in every decision they make.** What they need to have is the assurance that the board's "knowledge bank" has sufficient "capital" to ensure that the decisions they make, and the directions they outline for the future of the hospital can withstand scrutiny.

### Steps in the Strategic Planning Process

While the process itself can be very detailed and complex, depending upon the hospital's size and market, there are five key steps in a typical strategic planning process:

1. **Ensure a Strong Foundation.** Step one begins with the three critical components of the hospital's foundation: its mission, vision and values. While the mission and values may change little over time, the hospital's vision is an ever-evolving look into the future. The board of trustees should ensure that these three components are carefully examined:
  - Is the mission as presently stated still a meaningful and memorable description of the core purpose of the hospital?
  - Are the values or principles underlying the mission still relevant?
  - Is the vision, or what the hospital is striving to achieve, still a challenging but realistic stretch?

2. **Understand the Environment.** Step two involves conducting a thorough and comprehensive scan of the environment, both inside the organization, in the community and nationally. The board should ensure that the hospital's strengths, weaknesses, opportunities and threats have been fully explored in a way that results in strategic change. In addition, the board should ensure a robust examination of demographic trends, economic trends and forecasted community needs, and ensure that the vision, goals and strategies developed respond to both external trends and internal issues and opportunities.
3. **Understand Challenges and Opportunities.** Step three is to utilize the findings from steps one and two to define the primary challenges, barriers, and opportunities confronting the hospital, and determine the factors most critical in future success.
4. **Set the Direction.** Step four involves board assurance of a careful analysis of changes to existing strategies, or development of new strategies that respond to environmental change and that capitalize on the most significant opportunities for the hospital as it moves forward.
5. **What's Most Critical?** Finally, step five entails careful prioritization of strategies and objectives to ensure their match with the mission and vision, using rating criteria such as urgency to achieve, feasibility of success, and overall impact on community health and the hospital's competitive position.

### The Transition from the Board's Role to Management's Role

When the strategic plan is completed the hospital will have assessed its mission, conducted a thorough environmental scan, recalibrated its vision based on emerging trends, issues and opportunities, and will have conducted a thorough analysis of strengths, weaknesses, opportunities and threats.

Following this fundamental work, strategies and measurable objectives to achieve the strategies will be developed.

#### Board Assets and Abilities Necessary for Strategic Planning Success

1. **The ability to pioneer new thinking** and new responses to emerging community needs. That requires innovative thinkers able to think outside the customary boundaries of strategic planning.
2. **The ability to create and nurture a culture that welcomes and embraces change** as a creator of new opportunities. Change is and will be a constant in health care. It needs to be accepted and utilized as a strategic asset, not a success inhibitor.
3. **The ability to deal forcefully with unplanned and unexpected change.** In order to do that, the board must carve out adequate time on every board meeting agenda to discuss emerging trends, issues and challenges, and determine their relevance to the strategic plan.
4. **Recognition that there is no straight path to the future.** The dynamic, rapid-change maze hospitals must navigate requires governing boards to be able to think creatively through strategic responses to a wide range of scenarios. Accomplishing that requires a governance environment and infrastructure capable of fully capitalizing on board members' knowledge, insights and experiences.
5. **The ability to define the community benefit and value created** as a result of successful execution of the plan. The ability to define, measure and report benefit and value is becoming increasingly important in today's hyper-scrutinized environment.
6. **A focus on vision and outcomes, vs. programs and actions.** The board should be most concerned with the "what," rather than the "how" of strategic planning. That requires a consistent focus at the very highest level, leaving the details of plan implementation to those who are accountable for it.
7. **The ability to make rapid, timely and well-informed decisions** resulting from their commitment to continuous knowledge development. New information and knowledge is not useful unless it's put to work.
8. **The ability to anticipate market needs and opportunities** ahead of their competitors. This governance asset is a powerful companion to management's day-to-day focus on strategic implementation.
9. **The ability to lead with purpose and consistency** through unplanned and unexpected change gives senior leaders and employees confidence in the organization's ability to adapt its strategic thinking and strategic responses when necessary.

It's important for board members to know that their primary strategic planning responsibility is contained in these critical areas. Once this work has been accomplished and the board is satisfied with the broad strategic direction of the hospital, the management team can go to work to develop action steps, communicate the plan throughout the organization, and ensure that everything is in place to ensure a successful strategic implementation.

#### What Does a Good Plan Achieve?

Before the hospital begins the development of an action plan for undertaking its strategic plan, the board should ensure a full understanding of what it seeks to have the

plan achieve. Management teams will often, and for good reasons, become consumed with financial and operational issues and challenges. It is the primary responsibility of the board to ensure that the hospital's mission, vision and values remain at the center of the strategic planning process. This focus will help ensure that the strategic plan has timely, responsible and realistic goals that support the mission and vision.

An aggressive strategic plan requires strong and effective leadership to meet the new opportunities and challenges that will develop as the plan is being carried out. The board should ensure that its own governance leadership, as well as executive leadership, is a well-positioned and highly knowledgeable assets in the hospital's strategic success.

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### The Board's Role in Strategic Planning

A good plan also has a logical, clear strategic fit of plans and resources. The board should ensure that when a commitment to undertake strategies and achieve objectives is made, adequate resources exist to ensure their success. This requires a careful process of prioritization.

One of the key factors in the success of any strategic planning effort is how well its focus will be embraced and supported by the broad community – physicians, patients, consumers, businesses and payers. To accomplish this, boards of trustees need to be active “community connectors.” They need to be strong advocates, educators and promoters of the hospital in the community, and build awareness, understanding and loyalty to the hospital as the community's most important and most needed health care asset.

Finally, a good strategic plan is measurable. The board needs to know continually and precisely how well the hospital is progressing in achieving its stated strategies and objectives. The way to accomplish that is through a robust set of “key performance indicators” or “vital signs” that tell the board if potential “strategic gaps” are developing.

### Key Board Responsibilities and Opportunities

Governance leaders play a unique and very important role in the hospital's strategic planning process, and in its ongoing strategic success. The role of the board is to be a leader, a motivator and a catalyst for strategic success. The board does not need to be involved in the details of strategic plan development and implementation.

It's the strategic thinking role that is absolutely unique to the board in the strategic planning process. **Simply stated, the board should govern and lead the strategic plan, not create or manage it.** But that simple statement too often gets lost in misunderstanding, miscommunication, misapplication and missed opportunities.

The board is the driver and keeper of the organization's mission, vision, values, goals and strategies, but it should not dictate the plans for delivering on those

expectations. When it does, it ceases to play a governing role, and instead plays a management role, blurring the lines between these two critical elements. The board bears ultimate responsibility for the design of the strategic planning process and for the organization's success or failure. To fulfill this responsibility the board must assume a strong and focused leadership role; it cannot afford to stand back reactively waiting to see what developments will unfold in the marketplace.

Boards must be able to engage in new thinking and help executive management develop new directions to successfully compete in an increasingly challenging marketplace. Board leadership must be fast, fluid and flexible, and power an expectation of innovative ideas, new thinking and new directions to successfully compete in today's turbulent environment.

Effective board-level planning emphasizes constant strategic dialogue into which are continually fed new information, new ideas and new perspectives, and out of which emerges a constant stream of strategic development opportunities.

### Why Strategic Plans Fail

One reason plans may fail is because the board does not make strategic planning a high enough priority and does not hold executive management appropriately accountable for plan outcomes.

***Achievement of the hospital's mission and vision is the number one job of the board.*** And the best way to ensure that the mission and vision are achieved is to have a strong, vibrant and outcomes-focused strategic plan. Furthermore, the best way to ensure that the plan is meaningful and measurable is to have in place a reward system for the CEO and other senior leaders that are tied to the achievement of specific objectives.

Another reason plans may fail is because the board of trustees is unwilling or unable to devote the time and resources necessary to develop and carry out the plan successfully. Thirdly, plans may fail for one simple but false reason, and that reason is a belief that health care is changing too rapidly, and the environment is so uncertain that long-range planning is simply an exercise in futility.

#### Questions to Consider in the Strategic Planning Process

The following are some examples of the types of questions that typically emerge at the board level when a strategic assessment is properly used:

- What are the most important forces driving the hospital's future success?
- How does the hospital's value-based performance affect its revenue and community reputation? Is the hospital being financially rewarded or penalized based on its quality metrics? How does the hospital's quality performance compare to competitors?
- What health care needs were identified by the community health care needs assessment? What is the hospital's role and responsibility be in addressing the community's most serious health risks? How can and should the hospital be addressing these community needs?
- How well aligned is the hospital with its medical staff?
- How can the hospital improve its image and ability to meet customer needs?
- How can the hospital best capture market share from its competitors? Will the hospital's competitors be different in the future? How?
- What hospital services have the most potential for growth, both existing services and services that could be created?
- What are the primary factors driving patient outmigration, and what can be done to retain more business for the hospital?
- How attractive will the primary and secondary service areas be to aggressive competitors in the future?
- How do the service area population mix and economic character affect future hospital development potential?
- What should be the hospital's financial growth strategy, both short and long term?
- How should the hospital balance expense reductions with the need to invest in future service development needs and opportunities?
- How can the hospital continue to fund capital needs and growth strategies in the face of declining margins?
- How can the hospital ensure an adequate supply of physicians, nurses, technicians and other clinical and non-clinical employees required to meet emerging needs?

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Nothing could be further from the truth. The rapid-change and uncertain environment creates even more of a need for strategic thinking and strategic planning. However, that planning cannot take place in a traditional "straight line" manner. Instead, it must rely on an ability to think and plan in "black, white and gray." Boards and executive teams need to be able to think through scenarios for the future, define the potential changes that may take place in a variety of circumstances, and define strategic responses in advance.

#### Governing the Right Way for Strategic Success

How does the board play the most positive role possible in the strategic change process? What can the board of trustees do to help ensure a successful hospital future? And how can the board drive strategic discipline and strategic thinking throughout the organization, and govern the right way for strategic success?

Think of it as a three dimensional role:

1. **Hospital boards must first establish direction.**  
The board must ensure that the hospital has a meaningful, unique, market-specific and compelling mission and vision, statements of purpose and long-term focus that inspire employees, physicians, trustees, volunteers and others.
2. **The board must ensure that the entire hospital family, from top to bottom, sees their role and value** in achieving the hospital's strategic initiatives. Every single person plays a role, and each person should hold him or herself accountable for understanding that role and playing their part in organizational success. That culture of commitment is created and inspired by the board.
3. **The board plays a unique role in motivating and inspiring hospital leadership** to excel as strategic change leaders, individuals who can coalesce their colleagues in a strategic movement unified by purpose, committed to excellence and rewarded for performance.

### Driving SWOT Deep Into the Organization

Conducting a SWOT analysis, or analysis of strengths, weaknesses, opportunities and threats, is one of the core features of most hospital strategic plans. The problem with most SWOT analyses is that they are very general in nature, and oftentimes add little to the strategic planning effort.

For example, typical strengths identified in a hospital strategic plan includes such things as high quality, dedicated employees, strong financial position and committed physicians. While each of these may be true, they would also be true for virtually every other hospital in America.

There is a way to conduct a SWOT analysis that results in dozens if not hundreds of individual strengths, weaknesses, opportunities and threats that can be effectively utilized in the strategic planning process. It's simple, straightforward, and involves everyone in the organization.

**Involve Every Service Line or Department.** Each hospital service line, program and/or department should develop its own individualized strategic analysis. Service

### Governance Planning Pitfalls: 8 Dangers to Avoid

1. Assuming that the past is a reliable predictor of the future
2. The inability to craft a compelling, dynamic and meaningful vision embraced by all
3. Attempting to manage plan details instead of engaging in critical strategic dialogue
4. Taking narrow, board-centric approaches that do not involve a broad range of participants
5. The failure to see strategic planning as a continual process of real time responsiveness to change, rather than an end point
6. The failure to define precise targets, measure progress, and continually work to close strategic gaps
7. The inability to drive the strategic planning process, outcomes and responsibilities deeply into the organization
8. The inability to continuously turn new information into strategic knowledge, and transform it into strategic action

and program leaders should work with their employees through focus groups, surveys and other interactive methods to engage everyone in the process of strategic thinking about the area they know best - their own program or service.

**Use a Template.** Management may provide each program or service line with a template to be used to guide their analysis process. The template should result in an analysis that includes statistics on utilization and personnel; assessment of the strategic significance of the program or service to the hospital's future; a summary of the market for the program and service; an assessment of major trends and factors likely to influence program or service success in the future; and strengths and ways to maximize them, weaknesses and ways to minimize them, opportunities and ways to capitalize upon them, and threats and ways to eliminate them.

In addition, the strategic assessment should identify primary and secondary competitors, assess long-term

financial potential, evaluate quality performance and identify the factors that are most critical to the future success of the program or service. The result of all of this is a grassroots analysis of organizational position, needs and opportunities, a sense of engagement across the organization in strategic direction, and a long list of potential strategic initiatives for prioritization and implementation.

### Tracking Performance: Requirements for Evidence-Based Governance Decision Making

One of the primary challenges for hospital boards is to know whether the strategies and objectives adopted and implemented are achieving the desired outcomes. Being able to engage in a continuous analysis and dialogue about strategic progress and performance requires a set of key performance indicators that tell the board where current strategic gaps exist, and where potential strategic gaps may be on the horizon.

With the input of the CEO and management team, the board should track performance and progress using a set of metrics, a periodic review process, and an incentive system to reward management for meeting organizational objectives.

Well-designed vital signs have several specific attributes: they are few in number; strategically significant; quantifiable and “trendable,” time-specific; and consistently reported and used to determine and close strategic gaps.

An accountable, mission and vision-focused board will review strategic performance and progress at least quarterly, and most will review progress indicators on a monthly basis.

**Developing and Using Vital Signs.** Developing and using a set of hospital-specific vital signs is a straightforward process.

1. The board and management team must first determine what should be measured.
2. Then data that indicates the degree of success in achieving an objective should be determined. For example, in the area of financial performance the hospital may seek to reduce its average days in accounts receivable from 85 days to 55 days over a 24 month period.
3. Once the metric has been set, performance should be regularly reported in a way that shows actual performance compared to projections, and/or comparison with external benchmarks, such as the performance or best practices of other similar organizations.

### Reviewing Your Strategic Plan: Ten-Point Success Checklist

At each board meeting, a few minutes should be spent discussing the following 10 questions about the strategic plan and strategic planning process, and give the strategic planning efforts a grade.

1. Does the plan and build on the hospital's strengths?
2. Does the plan correct or minimize the hospital's weaknesses?
3. Does the plan contain a realistic appraisal of the hospital's markets, customers and competition?
4. Can the plan be understood by everyone who has a need to relate to it?
5. Does the plan appropriately balance risk and return?
6. Is the timing of the plan realistic?
7. Does the hospital have ready access to the resources required to achieve the plan?
8. Is the organizational structure compatible with the objectives of the plan?
9. Does the plan support the image the hospital wants to convey, both internally and externally?
10. Does the hospital have the leadership capacity to sustain the plan over time?

4. If management reports a significant gap between projected performance and actual performance, it should also be charged with recommending specific actions to be taken to close the performance gap.
5. On a continuing basis, the board should re-examine progress and performance resulting from the changes made to close the gaps.
6. In many instances vital signs become outdated based on new information or organizational changes. Rather than continue to rely on outdated or outmoded strategic progress indicators, the board should periodically update both its indicators and its performance expectations.

There are a variety of areas in which strategic measures may be developed to gauge the hospital's success in achieving its strategic objectives. The most common and easiest to develop are financial indicators. Equally important, however, are indicators in areas such as quality and patient safety, meeting community needs, organizational efficiency, workplace culture, productivity and mission, among others.

Each hospital's strategic measures will be different. The key to success is to ensure that the measures chosen are relevant to understanding the hospital's progress in attaining its individual strategies. Performance indicators need to be examined and discussed in the same way a balance sheet or income statement is discussed. No one indicator by itself can tell a complete story. In fact, a single indicator may be misleading if not examined in relationship to others. Taken together, key performance indicators reveal much about what's happening in an organization. This is where board insight and perspective becomes pivotal to strategic success.

### Prioritizing Strategies

All strategies are not created equal. Some strategies are absolutely urgent, critical and vital to achieve within a

### Action Agenda

- Review the current strategic plan, and evaluate its purpose and value
- Lead the initiation of a deep, wide-ranging and comprehensive examination of organizational fitness for future success
- Identify the most critical challenges and forces shaping the hospital's future, and develop a compelling and responsive vision
- Examine the governance substance and style, and adopt new leadership processes and practices to ensure future strategic planning success

certain time frame, while others, while important, may not be nearly as urgent or critical to organizational success.

An easy way to prioritize strategies is to give them a "weight" using different rating dimensions. For example, strategies can be prioritized based on their "do-ability," or how feasible a strategy is given current and anticipated resources. Strategies could also each be given a rating based on their impact in fulfilling the community health mission, the urgency of undertaking the strategy, or the value of the strategy in ensuring the hospital's long-term strategic success.

Charting a course for the hospital's future is one of the most important responsibilities of the board. However, there's a big difference between mapping a course, or being a navigator, and driving the bus.

To successfully lead their organizations toward the future, boards of trustees must clearly understand and successfully carry out their unique and vital role in the strategic development and implementation process.

# Q: How can the board be visionary in an era of uncertainty and transformation?

Time and again in recent years, hospital trustees have questioned how they can be expected to determine a strategic future when so much in health care is changing, and the future is seemingly unknown and unpredictable. But this is precisely the time when the board must be at its visionary best. Forward thinking visionary boards anticipate potential futures. They prepare for and embrace the changes ahead.

In the book *Governance as Leadership: Reforming the Work of Nonprofit Boards*, the authors define three types of governance: fiduciary governance, strategic governance and generative governance.

**Fiduciary governance** should be a boardroom basic, the cornerstone of the board's responsibilities. The practice of fiduciary governance includes stewardship of the organization's assets, responsibility for the organization's finances, ensuring the highest and best use of resources, monitoring and ensuring legal and regulatory compliance and providing operational oversight.

**Strategic governance** responsibilities encompass setting a vision and identifying initiatives and strategies for achieving that vision, as well as fulfilling the organization's mission. Strategic governance responsibilities include allocating the resources required to pursue strategic initiatives and monitoring progress to ensure goals are achieved.

While strategic governance might seem to be closely aligned with being a visionary board, it is actually **generative governance** skills that must be a priority for trustees in today's environment, which is characterized by fast-paced change with a hazy view of tomorrow. Boards that practice generative governance make time to question assumptions, they explore areas which lie outside the proverbial "box" and they envision new and innovative ways of accomplishing goals, achieving visions and fulfilling missions.

## "What If" and "So What"?

Visionary trustees consistently ask themselves a series of questions, including "What do we know today that we didn't know yesterday?" By staying well-informed with a continuing flow of new information and evidence, visionary boards can anticipate emerging trends. They begin to envision potential futures by asking themselves "What if...?" For example, "What if our patient volume continues to decline as preventive and wellness efforts succeed in improving our community's health, as our initiatives succeed in reducing readmissions, and as care continues to shift to outpatient settings?" "What if health care is no longer hospital-centric?" "What if retail clinics become a primary first point of care?" "What if we formed a partnership with...?" "What if we look at this differently?"

Boards move another step closer to becoming visionaries when they also ask: "What could that mean to us? What implications does it have for our hospital?" and "What could or should we do to be prepared?" These are questions that begin to generate deeper understanding of new paradigms and their implications for the hospitals and health systems that boards are responsible for leading. They are the questions that prompt challenges to the assumptions and status quo that may hold organizations back.

By considering a variety of potential scenarios and possible responses, visionary boards are able to carefully consider what possible actions they must take

to capitalize on the forces for change. They are better prepared to act quickly, confidently and on their own timetable instead of being reacting to situations that may be forced upon them.

### Challenges to the Board's Visionary Potential

While there are many potential challenges that prevent trustees from maximizing their visionary potential, below are a few of the most common causes that derail boards.

**Failing to Stay Well-Informed.** Without credible and current information and data, trustees cannot hope to recognize or anticipate the forces, trends and changes happening in the environment around them. They must develop a high level of understanding in the areas most critical to organizational success and performance. Passing knowledge is not enough. Well-informed boards search out opinions, ideas and perspectives that may be different from their own. They listen to a variety of voices outside the organization, engaging the viewpoints of people with unique experiences and perspectives. In doing so, visionary boards expand their knowledge base and open new lines of thinking.

**Poor Agenda Planning and Meeting Management.** Confronted with multiple challenges and competing priorities, effective boards must focus their time and attention on the issues most critical to achieving the organization's mission and vision. Board chairs must ensure meeting agendas are structured to allow the board to focus on bigger strategic issues in board meetings. The board chair must manage meetings to engage trustees at a higher level of thinking and planning, enabling and facilitating the inquiry, dialogue, and debate needed to be visionary.

**Focus on the Wrong Issues.** Boards must continually adjust their attention to deal with the issues of the future, not the issues of the past. Time should be concentrated on understanding trends and priorities, and their implications for the organization, rather than dealing with operational details. The board's focus should be on generative thinking and visionary-focused dialogue about the challenges, issues and opportunities ahead.

**Disengaged Trustees.** Board service has never been more challenging. Trustees must know and understand

### 10 Leadership Transformations for Visionary Governance

1. Develop new levels of expertise in the issues driving health care
2. Envision multiple futures
3. Focus more on the emergent and less on the urgent
4. Be catalysts for change, challenge assumptions, generate new thinking
5. Focus on strategic issues
6. Listen to outside views and perspectives
7. Engage in deep, decisive dialogues
8. Ensure high-quality trustee engagement, commitment and contribution
9. Understand the community's health concerns
10. Maintain a constant focus on mission and value

more, and take on greater responsibility than they have in the past. Board members must have the time, availability and discipline to act on their commitment to the board and the responsibilities of trusteeship. They should possess the personal attributes and qualities that ensure the caliber of engagement and contribution required for effective, visionary governance.

**Failing to Engage in Deep, Decisive Dialogue.** Visionary board members ensure their governance conversations are always vibrant, vital, and focused on purpose and outcomes. Dialogue should be the board's "social operating mechanism." Through synergistic discussions, innovative solutions are generated by grappling and grasping with new concepts, ideas and solutions. Without constructive challenges to conventional wisdom and thought, the best solutions may never surface. Visionary boards regularly confront issues by challenging assumptions and exploring alternatives to traditional thinking.

**Holding onto the Status Quo.** Holding onto the status quo will not push organizations to excel in the future. Improvement and advancement are the keys to future viability in a complex, competitive health care world that will not be the same as it is today. Trustees must lead organizations that can capitalize on new opportunities. Innovation and change must be encouraged and rewarded in all areas and levels of the organization. This

## Generative Governance: Where Real Leadership Power Lies

According to the authors of *Governance as Leadership: Reforming the Work of Nonprofit Boards*, generative governance is where real leadership power lies. It's where the board has a clear sense of problems and opportunities facing the organization. Meaningful goal setting and direction setting originates from generative thinking, which requires leaders that not only contribute generative insights to their hospitals, but also engage others in generative thinking. It occurs when boards question assumptions, probe feasibility, identify obstacles and opportunities, and determine alternate ways of framing issues.

Generative governance requires a new type of agenda that features ambiguous or problematic situations rather than reports and routine motions, with a goal to frame decisions and choices, not simply make them. Trustees promote robust dialogue around generative ideas and concepts, which stimulates a "culture of inquiry," creating more substantive and intellectually attractive agendas that create more interesting and productive work, and a more influential role for board members.

*Chiat, Richard P., Ryan P. William and Barbara E. Taylor. Governance as Leadership: Reforming the Work of Nonprofit Boards. BoardSource.*

requires trustees' leadership of thought, ideas, creativity, accountability and purpose.

**Lack of a Common Purpose.** As organizations grow through mergers, joint ventures, partnerships, and collaborations across the continuum of care, all stakeholders must share a common purpose or mission. Nothing is more motivating than a clear picture of a bright and successful future. Accomplishing this demands that the board develop an exciting, shared mission that will stimulate enthusiastic followership.

### Attributes of Visionary Trustees

Visionary trustees possess the personal attributes and qualities that ensure the caliber of engagement and contribution required for generative governance.

Visionary trustees:

- Are motivated and commit the time to develop the expertise needed.
- Voluntarily seek to be well-informed and knowledgeable, and demonstrate intelligence and quick understanding.
- Are big-picture thinkers open to new ideas.
- Think and speak strategically in discussions about complex scenarios and situations.

- Analyze trends to determine possible implications to the hospital or health system.
- Display creative and resourceful thinking, considering situations from various angles and perspectives.
- Use "reasonable inquiry" to pursue new solutions and opportunities, asking thoughtful and insightful questions.
- Are willing to challenge the status quo and take calculated risks in the interest of moving their organizations forward and fulfilling their missions. These individuals look into the future and imagine what might be achieved.

Visionary boards do not happen by chance. They build on the sound foundation of their organizations' missions, a good understanding of their communities' health care concerns and the bigger perspective of how health care is evolving. By asking penetrating questions and engaging in vibrant conversations that explore new possibilities, the board's visionary focus can stimulate creative thinking, dialogues and debates that help trustees identify and evaluate new and different strategies, overcome challenges and barriers, and encourage calculated risk-taking that leads to visionary futures.

# Q: How does the board hold itself accountable for continuous leadership improvement?

Extraordinary changes and transformation in the health care delivery system are occurring. These forces hold significant opportunity for hospitals. They also hold substantial implications and remarkable challenges for hospital management and governance. The most critical challenge confronting many boards is determining a strategic plan for a leaner, more efficient organization without sacrificing high-quality care, offering more and better programs and services, and achieving it all with fewer resources.

**T**rustees must be nimble, astute, and highly-competent in carrying out their responsibilities and fulfilling the hospital's mission. How the board must perform today and tomorrow is different than how the board needed to perform yesterday. Just as there are new standards by which hospital performance is being measured and reimbursed, there are new criteria the board should evaluate when gauging its performance. Some criteria are driven by changes in regulations, while others like trust and value are driven by the demands of patients and communities the hospital serves. High caliber boards will ensure their annual board assessment is updated with the criteria needed to prepare them to lead into the future.

## Mission-Driven Leadership

Media attention often calls into question the mission of hospitals. Many are asking if hospitals are driven by their mission motives, or by profit motives. How well the hospital achieves its vision, adheres to its values and fulfills its mission is one of the strongest rebuttals trustees can offer in the face of questions. As the hospital's leaders, trustees are accountable for ensuring the hospital's mission, vision and values are successfully communicated and carried out.

To assess how well the board is leading, trustees should ask themselves if the mission and vision are being taken into account in their decision making at all board meetings. The board, senior leadership and medical staff should all be vested in annually reviewing the hospital's performance in relation to the mission, vision and values. Regularly conducting a board assessment is a critical component of this.

## Ensuring Continuous Board Improvement

A governance practices and performance assessment is an organized evaluation of board members' satisfaction with all aspects of board performance in fulfilling the board's governance responsibilities. Governance assessments generally use a combination of quantitative and qualitative measurements of board, committee and individual performance.

Successful assessments enable boards to identify "governance gaps," or areas in which the board has the greatest potential for improvement. The assessment process identifies these gaps, and facilitates the development and implementation of initiatives and strategies to improve leadership performance.

Through an effective, well-developed governance practices and performance assessment process growth opportunities can be realized, education can be pinpointed to unique governance needs, recruitment of new trustees can be undertaken with increased confidence, and long-range planning can be conducted within a consensus-based framework with everybody on the same page.

### Using the Governance Practices and Performance Assessment to Improve Governance

A successful governance assessment engages the board in a wide-ranging evaluation of its overall leadership performance. At the same time, it provides trustees with an opportunity to rate their personal performance as vital contributing members of the board of trustees. An excellent assessment process will:

- Define the board's most critical governance success factors
- Secure anonymous and insightful trustee input on the critical fundamentals of successful governing leadership
- Create an opportunity to address major issues and ideas in a non-threatening, collaborative manner
- Clearly demonstrate where the board is both in and out of alignment on leadership fundamentals and issues
- Objectively assess the degree of common trustee understanding, expectations and direction for the board
- Assess the deficiencies that may impact the board's ability to fulfill its fiduciary responsibilities
- Identify opportunities for meaningful leadership improvement
- Help the leadership team better understand and respond to the board's education and development needs

### Goals of a Governance Assessment

1. Set measurable objectives for improving hospital performance
2. Gather information to assess board effectiveness in improving hospital performance
3. Use pre-established, objective criteria to assess board effectiveness in improving hospital performance
4. Draw conclusions based on findings, and develop and implement improvement in governance activities
5. Focus on sustained improvement in leadership areas defined as needing attention

Many hospital boards conduct an assessment prior to their annual retreat, at which they have ample time to discuss the assessment results and explore ways to improve leadership performance.

Some boards have the internal resources and knowledge to successfully design and conduct the assessment, compile and analyze the results and present the findings in a way that facilitates discussion and governance action planning. Others rely on outside consultants with experience using tested and proven tools, techniques and processes.

### Conducting the Governance Assessment

The governance assessment may be conducted using a printed survey, an online survey, individual interviews, a facilitated, full board discussion, or some combination of these methods. In addition, a board may choose to utilize technology to conduct a "real-time" assessment at a board meeting or retreat, with results instantly available for evaluation and discussion.

The assessment should include specific, precise and well-articulated criteria that relate to the hospital's unique board and leadership challenges. These criteria should be developed by a board development committee, or a special governance assessment task force, and should

## Critical Questions Every Hospital Board Needs to be Able to Answer

Ensuring Success in a Transforming Health Care Environment: Governance Practices and Performance Assessment

be reviewed and endorsed by the full board as leadership accountabilities they embrace.

Areas addressed in many assessments include: assessment of overall board performance in several areas of leadership accountability; assessment of committee performance; identification of issues and priorities facing the board; assessment of individual trustee performance, including a peer evaluation; and assessment of the board chair.

A meaningful rating scale must be developed that ensures clear and concise input that results in an effective scoring of the board's performance. A good scale to use is one that rates board performance on a scale of level 5 – level 1, including a clear definition of what each rating level represents. Below is an example of a “Level 5 – Level 1” rating scale:

- **Level 5:** I strongly agree with this statement. We always practice this as a part of our governance. Our performance in this area is outstanding.

### Questions to Consider About Your Governance Assessment Process

- Do you conduct a governance assessment annually?
- Does your full board participate in the assessment process?
- Is your assessment anonymous, allowing trustees to freely and candidly express their opinions and ideas for governance change?
- Does the full board review the results of the assessment, discuss their interpretation of the findings, and determine potential areas for necessary board improvement?
- Do you use the assessment results to develop actionable and measurable plans for governance improvement?
- Do you communicate the results of the assessment and the board's governance improvement plan to hospital employees? To the local community?

- **Level 4:** I generally agree with this statement. We usually practice this as a part of our governance, but not always. We perform well in this area.
- **Level 3:** I somewhat agree with this statement. We often practice this in our governance, but we are not consistent. We perform fairly well in this area.
- **Level 2:** I somewhat disagree with this statement. We inconsistently practice this as a part of our governance. We do not perform well in this area.
- **Level 1:** I disagree with this statement. We never practice this as a part of our governance. We perform very poorly in this area.
- **N/S:** Not sure. I do not have enough information to make a determination about our performance in this area.

Assessment of overall board performance should be divided into several leadership responsibility areas, such as:

- Mission, values and vision;
- Strategic direction;
- Leadership structure and governance processes;
- Quality and patient safety;
- Community relationships;
- Relationship with the CEO;
- Relationships with the Medical Staff;
- Financial leadership; and
- Community benefit and health.

**Rating Committee Performance.** The committee performance evaluation asks trustees to rate criteria specific to the charter and goals of each committee. The committee evaluation may also ask trustees to provide additional ideas for ways each committee can improve its leadership performance.

Below are some examples of areas to be rated for various committees. These are limited examples, and are not intended to be all-inclusive:

## Critical Questions Every Hospital Board Needs to be Able to Answer

Ensuring Success in a Transforming Health Care Environment: Governance Practices and Performance Assessment

### **Finance Committee**

- Reviews and refines the annual operating and capital development budget prepared by management
- Monitors the implementation of major initiatives that impact strategic and financial objectives, making appropriate recommendations to the board on an as-needed basis
- Reviews monthly financial statements
- Recommends hospital investment policies and monitors the hospital's investments

### **Quality Committee**

- Oversees the development, implementation and reporting of a hospital-wide program that measures quality, risk management and clinical resource utilization
- Reviews results of regulatory and accrediting body review of the hospital's performance
- Reviews quality and patient safety indicators
- Periodically reviews trend reports that reflect the overall performance of the hospital in providing quality care in a customer-focused, cost-effective manner

### **Compensation Committee**

- Evaluates the CEO's performance at least once a year in light of the established performance goals and objectives, using the evaluation to set the CEO's annual compensation, including salary, bonus, incentive and equity compensation
- Ensures that the CEO's performance evaluation is based on pre-determined and clearly communicated performance criteria
- Recommends the CEO's annual compensation package
- Ensures that the CEO's compensation package is tied to performance and is comparable to CEO

salaries of health care organizations similar in size and scope

### **Audit Committee**

- Assists the board of directors in fulfilling its oversight responsibilities with respect to the independent auditors' qualifications and independence
- Is financially literate and possess a general understanding of basic finance and accounting practices
- Has at least one member that is determined to be an "audit committee financial expert," possessing accounting or related financial management expertise

**Major Governance Issues and Priorities.** When done correctly and consistently, a governance assessment process enables the board to identify critical "governance gaps," and achieve and maintain the level of governing excellence required for success in today's challenging health care environment.

In addition to rating the board's performance in the important areas outlined earlier, the assessment should also provide trustees with an opportunity to answer several open-ended questions, such as:

- What is your single highest priority for the board in the next year?
- What are the governance strengths that must be maximized in order to ensure leadership success in the next year?
- What are the governance weaknesses that must be overcome in order to ensure the hospital's success in the next year?
- What do you see as the most significant health care trends that the hospital's leadership must be able to understand and deal with in the next year? In the next five years?
- What challenges or issues are most critical to be addressed if the board is to be most successful in leading strategic change in the next year?

### Individual and Peer Performance Assessment

An individual performance assessment is a critical piece of a quality governance assessment process. Trustees may have one view of the overall board's performance, and have an entirely different view of their own individual performance, and that of their colleagues. A personal, introspective look at individual leadership enables trustees to focus on the essentials of good leadership and their personal impressions of their individual performance.

A good way to evaluate personal governing performance is through a peer assessment. This enables trustees to personally evaluate their performance, and the performance of each of their board colleagues, using a short list of relevant criteria.

Trustees should rate themselves and their colleagues in two broad areas: 1) governing attributes, the factors that define their performance in fulfilling their governance duties; and 2) personal competencies and attributes, the factors that describe the personal strengths and abilities required for effective trusteeship.

In addition, each trustee should answer one simple question after rating each individual board member: "What suggestions do you have for ways this trustee colleague can improve his or her governing performance?"

The process provides trustees with unique insights into their leadership attributes and needs from the informed perspective of their trustee colleagues.

### Compiling and Analyzing Governance Assessment Results

There are a variety of ways to compile and analyze the results of your governance assessment, from simply tallying responses using Microsoft Excel to using customized governance assessment software or external consultants. Although every organization may approach the process differently, ***it is critical that the results are reported in an easy-to-understand format that sparks meaningful dialogue about the findings.***

The five steps below outline one potential process for analyzing assessment results:

- Compile the results using software, such as Microsoft Excel, that allows the creation of graphs using a variety of combinations or sorting.
- Develop bar graphs that display the ratings for each of the assessment areas, ordered from highest to lowest scores, and that depict the number of trustees assigning each rating to the criteria which reveals the degree of consensus among board members.
- Develop a written report or PowerPoint presentation that includes summary graphs of the criteria in all of the rating areas, as well as key themes from trustees' open-ended comments.
- Present and discuss the results at a special board meeting or board retreat, allowing ample time for trustees to discuss their interpretation of the findings as well as develop "governance gain" action plans to address low-performing areas.
- If a peer evaluation is conducted, each trustee should receive a report that includes his or her personal performance rating and their colleagues' ratings of their performance, using the same criteria. Each trustee's unique report should be then reviewed in a one-on-one meeting of the individual trustee and the board chair.

The full board assessment report should include a summary of trustee performance ratings, in graph form, to enable quick analysis of the degree of consensus on important leadership criteria. It should also include analysis of the ratings, highlights for board discussion, a summary and analysis of verbatim ideas and answers to questions, and recommendations for improving board performance in each rating area.

### Putting Your Assessment Results to Work

Conducting the governance assessment is just the first step in improving governance leadership performance. The key to success of the full process is not simply the measurement of trustee viewpoints, but is instead the

## Critical Questions Every Hospital Board Needs to be Able to Answer

Ensuring Success in a Transforming Health Care Environment: Governance Practices and Performance Assessment

action that is taken as a result of a careful examination of trustee viewpoints.

The assessment results should be a catalyst to engage trustees in a wide-ranging discussion of findings that highlight performance gaps and areas where trustees lack consensus about the board's performance.

A full review of trustees' viewpoints should stimulate the board to discuss their opinions and ideas for improving board success, and result in the development of a governance improvement action plan with clearly defined responsibilities, time frames and projected outcomes. Boards should then monitor their progress to ensure that projected outcomes are achieved, and revise the governance improvement action plan when necessary.

### Communication with Employees and the Community

The practice of using governance assessment results to not only achieve a higher level of board and organizational performance, but also strengthen employee and community trust, is often an overlooked advantage. ***The most important element of the assessment process is what happens after the assessment is complete.***

In addition to using the results of assessment to develop specific governance improvement goals and action plans, the board should communicate its process and general results to hospital employees and the community at-large. This communication will help employees, the medical staff and others to understand the challenges

the hospital faces and recognize the board's efforts in addressing those challenges. Support from employees and the local public is vital to hospital success in the face of increasing public scrutiny from lawmakers, regulators, community groups and the media.

Communicating with key stakeholders will deepen understanding of the board's commitment to the hospital and the community, raise awareness of the depth and range of challenges the board faces, and demonstrate the high standards the board holds itself accountable for.

The results should be shared with hospital employees first; boards will build trust with employees by ensuring that they hear about the assessment first, before it is reported in the local media. The employee memo should include:

- An overview of the process, why it was conducted and how often it is conducted;
- High-level results;
- Board improvement opportunities identified; and
- Specific actions the board intends to take to create governance gain.

Boards should also tell employees that a news release is expected to be published promoting the hospital's emphasis on transparency and willingness to share its strengths, opportunities for improvement and challenges with the community. Following distribution of the employee memo, the news release should be provided to local media, and should include information similar to that in the employee update.

**The key to success of the full process is not simply the measurement of trustee viewpoints, but is instead the action that is taken as a result of a careful examination of trustee viewpoints.**

### Using Your Governance Practices and Performance Assessment to Build Governance Gain

After reviewing the results of your governance assessment, developing a "Governance Gain Plan" will assist the board to create actionable, measurable next steps for improving leadership. The plan should include specific ideas for governance improvement in each area the board believes needs the most attention. Specific items to include for each governance improvement include:

- **Initiative Description.** A detailed description of the governance improvement initiative, effort, program or action to be taken that will result in governance gain.
- **Priority.** Prioritize the initiative on a scale of 1, 2 or 3, from highest to lowest priority
- **Projected Outcomes.** Specific goals and outcomes that will be achieved as a result of the completion of the governance improvement initiative.
- **Primary Responsibility.** The individual, group or committee primarily responsible for ensuring the governance improvement initiative is completed.
- **Resources Required.** The estimated cost of implementing the initiative.
- **Start Date.** The assigned date for work on the governance improvement initiative to begin.
- **End Date.** The target date for completion of work on the governance improvement initiative.

### Governance Gain Examples

Each governance gain plan is unique to the board's assessment results. For example, if corrective action is needed in the area of the board's structure and processes, governance gain initiatives may include some of the ideas below:

#### Education Initiatives

- Provide trustees with the background information and intelligence resources required for active participation in board dialogue
- Conduct a regular community health care environmental assessment; ensure trustee understanding of the changes taking place in the health care environment, and their implications
- Develop an education plan that ensures trustee understanding of the issues essential to effective governance; conduct education and orientation at every board meeting, and annually at the board retreat

#### Structural Initiatives

- Examine board composition, and match present skills against current and emerging trends, challenges and issues; ensure that skills are/will be in place to successfully deal with the future
- Clearly define board, medical staff leadership and management strategic planning roles and responsibilities
- Involve physicians in meaningful ways as key participants in governance decision making, including trusteeship, committee appointments, strategic task force involvement, etc.
- Develop a process for governance "renewal" to ensure that committees, policies, procedures and overall board structure and functions create a high-performance organization

#### Efficiency Initiatives

- Ensure that trustees receive agendas and materials at least one week in advance of board meetings
- Evaluate the quality and quantity of information used by the board to make policy and strategic decisions; ensure that information is relevant, timely, understandable and actionable
- Examine the content of board meetings to ensure that the most significant and meaningful issues are being effectively addressed, and that trustee time is respected and used efficiently
- Examine the prior six board agendas; assess the ratio of time spent discussing issues and opportunities vs. time spent on approval of minutes, committee reports, and other more procedural issues; make discussion of strategic issues the centerpiece of every board meeting

# Q: What are the most prominent health needs in your community?

Value-based purchasing, workforce shortages, the demand for transparency, increased governance scrutiny, health information technology, evidence-based medicine, changing demographics, economic challenges – these are just a few challenges facing hospitals and health systems in today’s complex and rapidly changing health care environment. But in order to stay true to the hospital’s community-centered mission, hospital trustees cannot let the challenges presented in today’s turbulent health care environment overpower the importance of understanding and meeting community needs.

To successfully and effectively lead their organizations, boards of trustees must have a deep understanding of the issues, challenges and needs confronting them. They should have clear answers to questions such as:

- How dependent is our organization’s success on the direction these issues take?
- If the hospital’s mission is to improve the community’s health, what is the health status of the community?
- Does our board have the evidence and information it needs to make effective, data-driven strategic decisions?

Community needs assessments help trustees answer these questions. In addition, they provide hospitals and health systems with unique opportunities to connect with the community and maximize partnerships, and develop opportunities for building public trust and confidence.

## Why Conduct a Community Needs Assessment?

A comprehensive community needs assessment provides the hospital with first-hand information about the health care needs of the community it serves. With this “snapshot” of the community’s health, the hospital

can identify the most pressing health care needs of the community, populations of individuals in need, gaps in care and services, barriers and challenges to receiving services, and information about other organizations that may already be working to meet specific needs. This information provides the foundation needed to build strategic and operational plans that will advance the hospital’s mission of service to the community. Using the data and information from the assessment, trustees can:

- Assess and evaluate where and how the hospital should direct its attention;
- Prioritize strategic initiatives; and
- Best determine the allocation of resources.

### ***An Opportunity to Strengthen Community***

***Relationships.*** A community needs assessment is a prime opportunity to strengthen community relations and build community partnerships. For example, conducting an assessment provides opportunities for the hospital to collaborate with a variety of community organizations in the distribution of surveys and collection of data. In addition, conducting community-based focus groups and making a dedicated effort to solicit the views and opinions of community members can help build and strengthen positive perceptions of and trust in the hospital.

### ***It’s Mandatory for Not-For-Profit Hospitals.***

Conducting a community needs assessment is more

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Understanding Your Environment: Practical Processes for Understanding Community Needs

than an important step in building community relationships and providing hospitals with the information they need to meet community needs—its also a requirement enforced by the Internal Revenue Service (IRS).

The IRS requirements for tax exempt hospitals include regularly conducting a community health needs assessment (CHNA), as well as maintaining a financial assistance policy and emergency medical care policy, limitations on charges, and requirements around billing and collections. Specifically, the IRS requires that hospitals: 1) conduct a community needs assessment every three years, and 2) adopt an implementation strategy to meet the needs identified in the assessment.

The IRS also specifies what hospitals must include in

their community needs assessment process:

- Define the community served.
- Assess the health needs of that community.
- In assessing the community's health needs, solicit and take into account input received from persons who represent the broad interests of that community, including those with special knowledge of or expertise in public health.
- Document the CHA in a written report that is adopted for the hospital by an authorized body of the hospital facility.
- Make the CHNA report widely available to the public.

### IRS: Assessing Community Health Needs

According to the Internal Revenue Service, **to assess the health needs of its community, a hospital facility must identify the significant health needs of the community. It must also prioritize those health needs, as well as identify resources potentially available to address them.**

#### Examples of Needs

The health needs of a community include both improvement and maintenance of community health status, in both community at large and in particular areas of a community (e.g. a specific neighborhood or population facing greater health disparities). The IRS provides the following examples:

- Addressing financial and other barriers to accessing care
- Preventing illness
- Ensuring adequate nutrition
- Addressing social, behavioral and environmental factors that influence health in the community

#### Significance of Needs

Hospitals may determine if a health need is significant based on the facts and circumstances present. The IRS suggests hospitals use criteria to prioritize health needs, including but not limited to the:

- Burden, scope, severity, or urgency of the health need
- Estimated feasibility and effectiveness of possible interventions
- Health disparities associated with the need
- Importance the community places on addressing the need

*Source: Community Health Needs Assessment for Charitable Hospital Organizations—Section 501(r)(3). Internal Revenue Service. Updated Aug. 21, 2020. [www.irs.gov](http://www.irs.gov).*

## Practical Steps for Conducting a Community Needs Assessment

Maximizing the value of your community needs assessment requires careful forethought and planning. The process should begin with a clear definition of the objectives of the assessment by the board and the hospital's executive leadership. Hospital leadership must then communicate the importance of the assessment throughout the organization, and engage the hospital's employees in support of data collection efforts. In addition, involving community leaders and key stakeholders in the process is particularly critical to a successful community needs assessment.

Although every organization's community needs assessment process will be different, the following steps provide an overview of the steps often undertaken in a community needs assessment.

**Step 1: Determine a Project Sponsor and a Project Coordinator.** The project sponsor is typically a member of the executive management team, but may be a board member. This individual serves as a liaison between the coordinator, the executive team and the board. The project sponsor provides oversight and high-level guidance, provides assistance in navigating threats or obstacles to the assessment, and is accountable for the successful and timely completion of the assessment.

The project coordinator is responsible for planning and implementing the logistics of the assessment.

**Step 2: Clearly Define the Objectives of the Assessment.** The general purpose of the community needs assessment is to identify health care needs that exist in the community, and to determine the role the hospital should serve in meeting those needs. A more clearly defined set of objectives will also identify:

- If the assessment will be used to set strategic direction, identify organizational initiatives and prioritize allocation of resources;
- If the assessment is or will be used in measuring progress against an established baseline of community need(s); and
- What elements of the assessment are required to be included in the assessment in order to fulfill any

## Steps in Conducting a Community Needs Assessment

1. Determine a project sponsor (often a member of the executive team) and a project coordinator
2. Clearly define the objectives of the assessment
3. Identify available resources
4. Develop a detailed plan
5. Collect and analyze data, including primary data collection (surveys, focus groups and interviews) and secondary data collection (information readily available from existing sources)
6. Develop a summary report of findings
7. Follow-up, including next steps to address the needs identified and communicating with the broader community

legal, contractual or regulatory requirements (for example, the board may want certain demographics to be collected and analyzed to substantiate the hospital's IRS Form 990 filing).

In addition to defining the information needed and how the findings will be used, the objectives should also define the assessment's geographic reach, generally considered to be the hospital's primary and secondary service area.

**Step 3: Identify Available Resources.** Define the budget, number of employees and other resources available and dedicated for conducting the community needs assessment.

**Step 4: Develop a Detailed Plan.** The project plan should include specific milestones, actions, accountabilities, dependencies and timeframes for completion. The plan should include processes for conducting the assessment, sources and methodologies for collecting data and information, a process for analyzing the results, and a plan for communicating findings and outcomes to the board, key stakeholders and the community.

**Step 5: Collect and Analyze Data.** Once the goals have been identified and the work plan has been approved, the next step in the assessment is to collect and analyze

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### Understanding Your Environment: Practical Processes for Understanding Community Needs

data. Utilizing multiple methods of data collection is recommended to ensure the widest possible opportunity for community representation and a clear picture of the issues, and can generally be divided into primary data collection and secondary data collection.

**Primary Data Collection.** The three most common forms of primary data collection are surveys, focus groups and personal interviews.

**Surveys.** Surveys are most frequently used to gather input from a larger number of people at the same time. Surveys may be conducted in various forms – a written paper survey, an online survey, a telephone survey, or a survey completed in-person by a survey-taker. Regardless of the survey format, it is important to consider the primary languages spoken in the community and provide translated versions of the survey as needed by the community.

When deciding which format to use, consider the target audience and the format that is most likely to achieve the greatest response rate. Once the format is determined, make survey submission as easy as possible. For example, if it is a written survey, design the survey form to fold into a “self-mailer” with the delivery address and prepaid postage printed on the front. Set up “survey stations” at various sites within the hospital, such as the entrance, lobby and waiting areas, admissions and business offices, cafeteria and other public spaces. Supply each station with a free-standing sign publicizing the importance of the survey and the hospital’s desire to hear from all segments of the community, and include copies of the survey and a drop box for submitting the survey.

**Survey Design.** Surveys typically consist of closed-end questions with multiple-choice responses. These types of questions are easier to quantify and analyze for a large number of respondents. Open-ended questions may also be included, but responses require qualitative analysis to identify key themes and issues.

**Survey Promotion and Distribution.** Oftentimes, traditional survey methods fail to engage important community populations and constituencies. These

populations may include the homeless, those without available Internet or telephone services, individuals with disabilities, non-English speaking people and others. The needs and perceptions of these people are important when considering the health of the entire community and how health care needs are or are not being met. When determining your survey methodology, it is important to consider using more than one method in attempting to reach the broadest possible representation of the entire community.

To overcome a lack of widespread survey access and barriers for some populations, begin by identifying a broad network of partners willing to promote and encourage survey completion. Their participation may range from willingness to sponsor an on-site computer station for online survey completion to survey distribution and promotion. Ask employers if they will include the survey with payroll distributions, include a statement of survey availability with hospital billing statements, and ask retailers if they will allow distribution of surveys to customers at their store entrances. E-mail the survey to local chambers of commerce, civic organizations and others, asking if they will distribute it electronically to their members.

The survey should be available in multiple formats, including an online version with a link directly on the hospital’s website, as well as a written version that can be handed out or distributed via email. The survey should be translated into multiple languages if necessary to ensure that all sub-sets of the community respond.

**Focus Groups.** Focus groups provide another opportunity for input from people who work with community groups and under-represented populations. Generally limited in size, focus group participants respond to open-ended questions presented by a group facilitator. Views and perspectives are discussed in greater depth than can be accomplished in a survey. A focus group may be best conducted in follow-up to a survey, allowing themes and issues identified in the survey to be further explored and validated.

### Distributing the CHNA Survey: Getting the Word Out

In addition to distributing surveys through local employers and retailers, other alternatives to consider for survey promotion and distribution include:

- Your hospital's website
- Distribution to hospital employees, volunteers, trustees, foundation members and other hospital or hospital related entities. Encourage employees to distribute the survey to friends, neighbors and acquaintances
- Inclusion with other hospital mailings and public notices
- Internal hospital communications
- Local media - newspaper, TV and/or radio coverage and announcements
- Distribution through physician offices, federal, state and/or county health clinics, other providers of health care and Medicaid programs
- Local health insurers and agents or brokers
- Health fairs and job fairs
- Food banks, homeless shelters and other locations where people of limited means gather to secure resources
- Community organizations and other entities such as senior centers, libraries and churches
- Chambers of Commerce, Rotary clubs and other civic organizations
- Local employers
- Local health and fitness centers
- Local pharmacies
- Other local opportunities identified by your organization

**Interviews.** Like focus groups, interviews offer an opportunity to explore and validate themes arising from survey and focus group results. Brief, highly-focused interviews may be used as a means of gathering insights from individuals, such as physicians and others, for whom scheduling focus group time is difficult.

**Secondary Data Collection.** In addition to collecting data directly from surveys, focus groups and interviews, organizations should supplement their findings with secondary data. This information is readily available from various sources and can contribute to the overall strength of the assessment findings.

When collecting secondary data, it is important to determine what information has the most significance and to seek out local as well as state, regional and national level data. When possible, local health information should be benchmarked against state, regional and national trends. Benchmarking allows hospital leaders to explore questions such as: "Does our community exceed averages for various indicators of community health?" and "Is our community's health status better or worse than that of similar communities?"

Identifying the potential causes and reasons behind these findings will help the board uncover potential opportunities and strategies for addressing the community's health care needs. Typical categories of secondary data and information to research include population growth trends and projections, age, gender, race and ethnicity trends, income levels, education levels, rates of uninsured, unemployment trends, rates of physical activity, vaccination rates, graduation rates, rates for preventive screening measures, incidents of chronic disease and statistics about health care utilization.

**Step 6: Develop a Summary Report of Findings.** A summary report pulls together all of the findings, and should include the objectives of the assessment, the methodologies employed, findings, implications and recommendations. The findings from the needs assessment survey, focus groups and interviews should be synthesized and compiled in an organized and logical manner that allows the board and the hospital's executive leadership to identify and evaluate the implications and develop potential strategies.

**Step 7: Follow-Up.** Trustees are responsible for making decisions about how the assessment results will be used. The assessment process should give the board a strong foundation for strategic planning by providing clarity about needed services and identifying specific, attainable goals for meeting community needs. Part of this process may mean determining if it is necessary to

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Understanding Your Environment: Practical Processes for Understanding Community Needs

provide additional services or create new programs. Some services may benefit the hospital with additional income, while others may result in minimal or no profit. When evaluating potential new services, the board must decide if adding the services:

- Provides a substantial benefit to the community;
- Is important in fulfilling a specific community need;
- Contributes toward the community benefit activities required of tax-exempt hospitals; or
- Directly contributes to the achievement of the hospital's mission.

Communicating the assessment results to stakeholders, partners in the assessment process and other community members is an important step in engaging their continued interest, support, trust and ownership of solutions to meeting needs and improving the health of the community.

### Building on the Community Needs Assessment: Conducting an Environmental Assessment

In addition to conducting a community needs assessment, a good environmental and market trend assessment can provide boards of trustees with new insights and help drive sound strategic decision-making. Comprehensive environmental assessments offer:

- Relevant and reliable data needed for strategic analysis and evaluation;
- “Early warnings” of changes on the horizon;
- A consistent context for discussion, debate and decision-making;
- An integrated, holistic perspective of the health care environment;
- Improved organizational responsiveness to the environment; and
- Greater opportunity for successful achievement of strategic plan initiatives.

An environmental assessment should provide not only an outside look at the surrounding environment, but should give trustees a complete perspective by including an inward view as well. As with a community needs assessment, a variety of primary and secondary sources of information and data should be accessed to provide the greatest possible breadth and depth of relevant information. When possible, organizations should use the information, data and reports they already gather and produce, but which may not have been historically compiled into a single resource. This will minimize duplication of effort and ensure that all available information is included in one comprehensive and integrated location.

### What's Included in an Environmental Assessment

Environmental assessments typically focus on health care trends and forces for change in the health care field, providing hospital leadership with a more in-depth understanding of the issues and trends occurring in key areas. The areas of focus may change over time, but a good assessment will typically highlight:

- Health care trends
- Local demographics
- Competitor information
- An organizational profile
- Quality and patient satisfaction performance
- Financial performance
- Information about the medical staff
- Human resource issues, such as projected shortages, turnover rates and vacancies

**Health Care Trends.** Health care trend information highlights the forces for change that are projected to influence the direction of health care. Examples of current health care trends to consider include growing rates of uninsured and underinsured, changes in regulations, shifts in consumer demands and

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Understanding Your Environment: Practical Processes for Understanding Community Needs

preferences, the impact of health equity and social determinants of health on local communities and the health care system at-large, increased hospital scrutiny and demands for transparency, rapid advances in science and technology, workforce shortages, and the expansion of integrated delivery systems.

**Demographics.** The demographic section of an assessment provides a snapshot of local market demographics. Useful demographic information should include an overview of the organization's primary and secondary service area, population growth projections, household income overviews, local area employment, unemployment and uninsured rates, etc.

**Competitors.** Competitive information provides a more complete evaluation of potential unmet community needs and opportunities, and allows the hospital to monitor potential competitive threats. This section of an assessment should include comparative statistical information on competitors' number of beds, discharges, emergency department visits, occupancy, and revenue

statistics. Margin trends, profitability, an assessment of range of services and market share trends should also be evaluated.

**Organizational Profile.** A strong summary of the organization's profile ensures that each member of the board as well as the executive staff is working with the same understanding and knowledge about the organization's current performance. A profile can also provide context regarding the resource capabilities of the organization and its ability to take advantage of emerging opportunities or to weather potential challenges to its operations. A comprehensive profile should include information about recent growth and development accomplishments such as new facilities or implementation of services. Technological capabilities and growth in patient volume should also be captured in the profile, as well as a portfolio of services and utilization trends for surgery, outpatient services, emergency department services, maternity care and other services available.

## Inside and Outside Perspectives

Examples of data and information that should be collected and evaluated in the environmental assessment include:

### The Outside View

- Regulatory and legislative changes occurring in the health care field
- Demographic trends
- Community health and health care access information
- The economy, finance, and economic development
- Information technology trends
- Medical technology trends
- Trends in consumerism
- Payer trends
- Political issues
- Physician and other provider changes and trends
- Quality and patient safety mandates and developments
- Competitive information including statistics, market share trends, areas of excellence, and facility

### The Inside View

- Workforce trends, such as nursing and physician shortages, aging and retirement
- Service utilization
- A portfolio of the services offered by the organization including utilization trends, market share by service line and a SWOT (strength, weakness, opportunity and threat) analysis
- Foundation and other financial resource data
- Organizational access to and utilization of technology
- Facility development needs
- Quality, patient safety and patient satisfaction measures
- Financial performance
- Medical staff development status and trends

### Maximize Your Community Needs and Environmental Assessments

**Leverage the Work.** Both the community needs and environmental assessments are a significant resource of information that can be used in multiple ways by individuals and departments throughout the organization. These resources should become a dynamic “go to” that is shared widely within the hospital. As requests for information and data are made throughout the year, they should be noted and evaluated for relevance. If deemed appropriate, new information and data should be incorporated into the assessments to continue building and improving on the strength, relevance and usefulness of the organization’s intelligence.

**Put the Assessments to Work at Board Retreats.** Community needs and environmental assessments provide a strong, evidence-based foundation upon which the board can build its strategic plan. Entering a retreat armed with assessment data and information, trustees can envision and develop critical assumptions about the trends and forces expected to influence the health care field in coming years. Required capabilities and resources to meet those assumptions can then be identified, and the organization’s readiness can be assessed. Assessment knowledge and the assumptions derived from it allow trustees to better evaluate current strategies and to develop new, targeted strategies for achieving its mission and vision.

**Ask “What Do We Know?”** Assessment work does not end with a board or leadership retreat. Staying attuned to the community and the health care environment requires ongoing effort. Trustees must continually ask “What do we know today that we didn’t know at our last board meeting? Does this new knowledge in any way change any of our assumptions?” And “If so, how does that change affect our capabilities and strategies moving forward?”

**Quality and Patient Satisfaction.** Quality and patient satisfaction belong at the forefront of the board’s attention. Quality, safety and satisfaction performance measures, initiatives and accomplishments should be captured and their implications should be continuously reviewed and evaluated by the board. Consumer preferences and perceptions as measured by a national standardized survey of hospital patients commonly referred to as HCAHPS (Hospital Consumer Assessment of Healthcare Providers and Systems), state reporting centers and other research sources are an important component of a comprehensive environmental assessment.

**Financial Performance.** The hospital’s financial status and resources are critical to the organization’s ability to carry out strategic initiatives and realize its vision. An assessment should address income and margin statistics and trends, inpatient and outpatient revenue statistics and trends, and financial and operating ratio analyses that identify resulting trends and implications. The assessment should also include an analysis of the hospital’s payer mix.

**The Medical Staff.** To complete an organization’s profile, an assessment should include statistical information about its medical staff. This data should include medical staff composition by specialty and membership type, recruitment planning goals and recent recruitment results, discharges by specialty, and physician referral information derived from the percentage of discharges by physician.

**Human Resources.** Workforce shortages are a significant health care concern today and for the foreseeable future. An environmental assessment should provide the board with the information and data necessary to stay abreast of this issue, including the measurement of any efforts on the part of the hospital to counter critical shortages. This portion of the assessment should identify hospital employee issues and concerns, and should compare vacancy and turnover rates to national trends. The implementation and progress of leadership development and other workforce initiatives should also be measured, analyzed and included in the assessment.

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### Understanding Your Environment: Practical Processes for Understanding Community Needs

#### **Steps in the Environmental Assessment Process.**

The steps to conducting an environmental assessment are similar to those of the community needs assessment:

- **Step 1:** A project sponsor and project coordinator should be determined.
- **Step 2:** Establish clearly defined objectives for the assessment.
- **Step 3:** Identify necessary financial and employee resources.
- **Step 4:** Develop and implement a work plan, and complete the assessment.

#### **Putting the Assessments to Work**

Armed with the information provided in the assessments, the board should first ask: “What impact will trends and forces for change have on health care and on our hospital?” For example, when faced with changing medical staff demographics trustees might ask: “What are the critical projected changes in our physician workforce demographics?” and “based on these changes, what will be the key demands on the health care system in the next five years?”

Once the questions are framed, the organization must make astute assumptions about the implications and impacts these issues hold for the future of the hospital. The board should work with the senior leadership team to evaluate the organization’s resources, abilities and capacity to successfully respond in face of these

assumptions. The outcomes of the assumptions and evaluations will lead the board and management in determining critical strategic opportunities, threats and resource gaps.

Trustees are responsible for making decisions about how assessment results will be used. The assessment process should give the board a strong foundation for strategic planning by providing clarity about health care trends and needed services, and help identify specific, attainable goals for meeting community needs. The board must decide if adding (or eliminating) services:

- Provides a substantial benefit to the community;
- Is important in fulfilling a specific community need;
- Contributes toward the community benefit activities required of tax-exempt hospitals; or
- Directly contributes to the achievement of the hospital’s mission.

Communicating the assessment results to stakeholders, partners in the assessment promotion and other community members is an important step to engaging their continued interest, support, trust and ownership of solutions to meeting needs and improving the health of the community.

Making the findings of the community health needs assessment widely available to the public is also a requirement of the IRS, which can meet by posting the written community needs assessment report on the hospital’s website.

# Q: How does the board build lasting community partnerships?

In a value-based health care system, success is defined not only by financial viability but by the organization's ability to fulfill its promised mission to improve the health of its community. Part of the challenge is that health is determined by many disparate factors, such as housing and housing location, employment, income, food, education, access to transportation, family support and more. These are factors outside the control of a single organization, but they impact an individual's access to care.

Individual health care organizations cannot independently do everything that is needed to fulfill their mission commitment to the community. The majority of health care organizations are committed to improving the health and well-being of the communities they serve. While a strong majority agree that population health aligns with their mission, far fewer indicate that they have the financial resources for population health initiatives or programs to address social determinants of health. Furthermore, thinking and operating independently fails to leverage and maximize the opportunities that come with joint efforts and shared resources. These realities are prompting health care organizations to develop partnerships with a wide range of other agencies and hospitals in their communities.

## The Principles of Successful Collaboration

The American Hospital Association's Center for Healthcare Governance conducted a Blue Ribbon Panel Study of select Foster G. McGaw Prize Winners, recognized for their exceptional commitment to improving the health and well-being of the communities they serve. The study's purpose was to examine how these winning organizations work with their community partners to develop community service initiatives and how the partnerships are being governed. Nine common

principles of successful collaborative partnerships were identified in the study report *Learnings on Governance from Partnerships that Improve Community Health*:

1. **Partnerships Must be Community-Driven.** Collaborative partnerships for community health are comprised of diverse organizations and individuals passionately striving to address problems common to all. Partnerships and their governance structures require flexibility and will vary to meet the needs, resources and characteristics of each community.
2. **All Stakeholders Must be Meaningfully Engaged.** Plans cannot be made based on what some "think" the community needs. All community stakeholders must be identified and represented in determining, planning and executing governing priorities. This engagement ensures well-informed, data-driven decisions regarding the purpose, vision, strategies and implementation of the partnership's work, and also ensures interest, investment and trust in the partnership and its work.
3. **More Can be Achieved Together Than Alone.** Stakeholders must be committed to working together in partnership, leveraging each partner's resources and complementary talents to create a synergy among partners that enables greater

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Elevating Community Partnerships to Make a Lasting Impact

accomplishment than can be achieved by working alone.

4. **Partner Equity Ensures Sustainability.**

Regardless of size, financial or in-kind contribution to the partnership, stakeholders are considered equal. The success of a partnership may be dependent on backbone or anchor institutions assuming the role of conveners, facilitators or integrators, and relinquishing leadership or control of the agenda.

5. **Community Health and Well-Being Improvement is a Shared Core Purpose.**

Members of the governance structure are stewards of the community's resources, its health and well-being, and of the trust placed in them by the community. As such, members of the governance structure must be committed to working together in partnership for the benefit of the community. The shared purpose, vision and common priorities for the health and well-being of the community are adhered to as the crucial focal point of community partnerships, meeting agendas, discussions, deliberations and decisions.

6. **Creative Approaches are Needed to Tackle All-Encompassing Problems.** Improving community health is an all-encompassing concern that includes multiple socio-economic issues and requires: long-term perspectives and commitments; data-driven decisions; seeking out best practices; willingness to take well-calculated risks; and willingness to embrace bold, innovative approaches.

7. **A "Systems Approach" Ensures Continuity.** A systems-oriented approach creates solid foundations for building and aligning integrated delivery systems for community health improvement and maintenance.

8. **Goals and Progress Reporting Ensure Accountability.** Change requires an intense focus on results. Clear measures or indicators of progress provide direction and create inspiration and motivation. Consistent monitoring of balanced scorecards or dashboards and communicating progress to the broader community, are essential to demonstrating accountability, earning community trust and building hope for the future.

## Questions for Boards about Community Collaboration and Partnerships

By virtue of their size, resources, mission, and commitment to community health, hospitals and health systems often find themselves as leaders in community partnerships. As your board evaluates and prioritizes the needs of your community, the depth of your organization's resources and its commitment to fulfilling its mission, consider the following questions for discussion:

- What community partnerships do we lead or participate in now? Do we know what efforts others in the community are pursuing? Could joining forces create a more successful outcome for the community?
- Is there an opportunity for greater collaboration, including shared governance, to grow the impact of community partnerships?
- Do we have a strategy for community partnerships based on community needs?
- What partnership opportunities should or could we pursue to improve the health of our community that we aren't currently?
- What role should the hospital or health system play in a partnership (the "backbone," facilitator, primary funder, or an equal partner without a prominent role, etc.)?
- How can our hospital or health system best use its resources to address community health, and what can we contribute to a partnership that others in the community cannot?

#### Building Effective Community Connections

Potential stakeholders hospitals should consider partnering with include patients, families, schools, advocacy groups, businesses, churches, health policy makers, physicians, public health and social service agencies, insurers, government officials and the general public. Steps that hospitals and health systems can take to reinforce effective community connections will vary based on the populations, cultures and uniqueness of each community, but generally include:

- **Define the “community” (or communities)** the hospital or health system serves, creating a focus for the community health improvement initiatives.
- **Develop genuine partnerships** with other community health care providers, government agencies and organizations that can bring diverse resources to the table.
- **Develop a shared and collaborative community health mission**, values, vision and plan, including specific goals and measurable outcomes to track success.
- **Create a “culture of community commitment”** throughout the organization, with the hospital’s and health system’s leaders setting the tone for the medical staff and employees.
- **Conduct routine assessments of the community’s health status**, using the first assessment as a baseline by which to track progress and the success of community health initiatives.
- **Develop community health status indicators** and routinely report them widely to all key stakeholders, including individuals in the local communities. Highlight areas of success as well as areas in need of improvement.
- **Consider creating a board committee** to oversee community health partnerships, assess resource needs, and address barriers to progress—a step which helps to demonstrate board commitment to community accountability.
- **Hold local and/or regional CEOs accountable** for achieving community health improvement objectives by developing specific, measurable outcomes that are mutually agreed upon with each CEO.
- **Continuously integrate new initiatives** for community health assessments with existing ones.
- **Build and sustain the concept of board responsibility** for community assessment, involvement and improvement, including an emphasis on community health at board meetings and in the board’s regular board self-assessment process.
- **Develop a communications and public relations program** that enhances the organization’s transparency, builds community understanding of health care needs and challenges.
- **Develop and enhance technology-based programs** that leverage the tools, access and influence of social media.

- 
9. **Governance Must be Structured to Ensure Sustainability.** Sustainability of the governance structure and collaborative partnerships are critical to the health of the community and is dependent on a clear purpose or intention, the commitment of partners, a plan of action, adequate funding, effective implementation and demonstrated progress.

To download the complete *Blue Ribbon Panel Report: Learnings on Governance from Partnerships that Improve Community Health*, go to <https://trustees.aha.org/learnings-governance-partnerships-improve-community-health>.

## Ensuring Collaborative Community Governance

Collaborating in meaningful ways with key community influencers and stakeholders is no easy task. Every partnership will be different, as each organization has its own structure, strategies to addressing local challenges, and individual agendas and goals. In addition, partnerships often lack a formal structure and may not have a formal authority for making final decisions.

Hospital and health system leaders can be the catalyst for developing successful community-based partnerships by ensuring a focus on shared goals and objectives, and creating a mutually agreed upon process for the group’s meetings and decision-making approaches. When establishing community-based partnerships, boards should consider the following principles:

- Engage a wide spectrum of the community as partners for improving community health
- Identify and invest in existing community assets rather than creating new assets
- Be willing to let go of control
- Be transparent, open and inclusive
- Be accountable through ongoing measurement, reporting and action plans for improvement

### **Identifying, Evaluating and Including Partners.**

Although partnership potential varies greatly from community-to-community, the guidelines for determining the most appropriate stakeholders remains the same. When developing partnerships, hospital leaders should consider whether the prospective partner:

- Can commit to the partnership’s vision and goals
- Brings something unique and valuable to the table
- Is willing to commit meaningful resources
- Fits existing “zones of collaboration” or creates new ones
- Is truly interested in advancing community health

## Rules for Building Sustainable Community Partnerships

<b>Rule 1</b>	It’s not an event or a one-time fix, but a continuous commitment to community
<b>Rule 2</b>	Lasting partnerships cannot be created overnight, and must be sustained over time
<b>Rule 3</b>	Don’t reinvent the wheel; learn from and use the success of others
<b>Rule 4</b>	Cultivate broad-based buy-in and commitment from all stakeholders
<b>Rule 5</b>	Communicate, communicate, and then communicate some more

### **The Result of Collaborative Community Governance.**

Successful community partnerships are formed with a shared vision, coordinated, sustainable solutions to improve community health. The shared efforts and resources translate to a better use of limited resources, thus ensuring that the right care, service, test or treatment is provided in the right place and the right time. Effective partnerships also result in improved understanding and trust between the hospital and the community as a whole, and an expanded pool of powerful advocates for local and regional health needs. In addition, collaboration to improve the community’s health sends a powerful message to the community about the hospital’s commitment to providing community benefit and improving the overall health of local citizens, resulting in increased local support for the hospital.

### **No One Model Fits All**

There is no single model of partnership or governance that will meet each community’s unique needs. As boards evaluate and prioritize the community’s health needs and the depth of the organization’s resources, trustees must ask how the power and potential of leveraging community partnerships can help to fulfill the organization’s mission and commitment to improving the community’s health.

# Q: Why should hospitals develop a community benefit report?

Public trust and confidence are critical to sustaining competitive success, building a broad and cohesive base of hospital advocates, and ensuring widespread support for the hospital's important mission and vision. Producing a community benefit report is a critical component of this process and provides hospitals an opportunity to clearly demonstrate the benefit and value they provide to their local communities.

**T**oo often boards of trustees assume that public awareness, trust and confidence are not an issue unless they hear otherwise. This can be a dangerous assumption, and ignores the fact that issues of community confidence and trust often bubble below the surface, and may not be apparent to board members in the course of their engagement with the people they work with and know in the community.

## IRS Form 990 and Schedule H

The Internal Revenue Service (IRS) Form 990 includes a number of specific schedules organizations must complete, depending upon the types of activities they engage in. One of those is "Schedule H," which must be completed by all hospitals or other organizations that provide medical care. The form also includes schedules on executive compensation, related organizations, asset transfers/termination of exempt entity, tax-exempt bonds and governance.

The Schedule H is an opportunity to define the benefit provided to the community, as it requires itemized reporting of:

- Financial assistance and means-tested government programs (such as Medicaid) and certain other community benefits provided (such as community

health improvement services, health professionals education, subsidized health services and research).

- Community building activities, including physical improvements and housing, economic development, community support, environmental improvements, leadership development, coalition building, community health improvement advocacy, workforce development and more.
- Bad debt, Medicare and collection practices.

The Schedule H also asks a variety of pinpointed questions about the hospital or health system's community health needs assessment, financial assistance policies and billing and collections.

## The Perception Problem

There is a significant consumer frustration about health care driven by a lack of awareness and understanding of the current system and its challenges, something that an effective community benefit report and community engagement effort can address. Most people do not understand how hospitals are organized and managed, how they work, what they do to provide charity care, or what they do in their communities as a part of their mission to provide community benefit and improve community health.

### What Counts, What Doesn't

As hospitals work to create a community benefit report, a number of questions must be addressed concerning what activities hospitals should include. The following are points to consider for inclusion:

- **Community Health Education.** Education on specific disease conditions, health promotion and wellness programs, prenatal classes serving at-risk populations
- **Community-Based Clinical Services and Subsidized Services.** Free or low cost care to the uninsured, vans and mobile units used to deliver primary care services, hospice and home care, charity care and bad debt, free or discounted immunizations at a health fair or mall presentation
- **Financial Contributions.** In-kind services donated by staff during working and non-working hours, donated space to community groups for meetings, fund-raising costs for community programs
- **Community-Building Activities.** Financial support for community health programs and partnerships, participation in economic development council, community forums and reports
- **Health Professions Education.** Internships, residencies, scholarships, tuition reimbursements as an employee benefit, subsidized on-site training for nurses, nursing students and technicians, training for medical translators

Source: Catholic Health Association

They do not understand the magnitude of the forces that are changing health care, including payment inadequacies, the negative impacts of overregulation, dramatic shifts in technology, changes in the workforce, the need for hospitals to address community needs and social determinants of health, and more.

In the absence of information and evidence, people rely on personal experiences, their own intuitive beliefs and personal opinions to shape and sustain their belief structure about what's good and bad about health care. It is extremely hard to impact peoples' strongly-held

beliefs and perceptions, but hospital leaders have an opportunity to help shape positive public perceptions about their hospital. They have an obligation to communicate the unique challenges it faces, how it's dealing with those challenges in a very difficult environment, and why the hospital relies on the commitment and loyalty of its community to ensure its ability to continue providing high quality health care services well into the future.

### Using Connections to Build Benefit and Understanding

Trustees are in a unique position as community representatives and advocates to ensure that the hospital has tight community connections. They should listen to community needs and challenges, and build community understanding and awareness about the issues and challenges their hospital faces—challenges that the community likely doesn't fully understand or appreciate.

While it's hard to impact strongly held beliefs and perceptions, perception can be tipped with the correct information and communication, delivered consistently and effectively over time by trusted individuals. Making that happen is the principal job of the "community-centered" board.

In order to capitalize on that opportunity, the board needs to truly understand what the community wants and needs, and what it thinks and believes. Once that understanding has been achieved, the board needs to be committed to driving responses to the needs, interests and concerns of what some call the "communities within the community," the many different stakeholders and constituents that, taken together, form the total fabric of the community.

But the job does not stop there. The board needs to ensure that the hospital is committed to measuring and evaluating its performance in meeting community needs, delivering the benefit and value the community expects.

Once that value has been clearly defined, it should be communicated widely in ways that are meaningful to various community constituencies. A one-size message

## Critical Questions Every Hospital Board Needs to be Able to Answer

Using Your Community Benefit Report to Maximize Understanding, Loyalty and Support

### Typical Community Benefit Report Content

A hospital or health system's hospital's community benefit report should be one of the most important documents produced for the community. Report content should include:

- A message from the CEO and the board chair that outlines the importance of the hospital to the community, and that highlights many of the important community benefit successes achieved in the last year
- Mission and vision statements
- Background information about the hospital, such as the hospital's size, how long it has been serving the community, etc.
- A map of the hospital's service area
- An overview of services offered
- A list of hospital leaders, including members, senior staff and the Chief of Staff
- A discussion of emerging health issues and community health risks, and ways the hospital is working to address them
- A list of community benefits provided, including program and service descriptions and estimated contribution to the community
- Personal stories and photos highlighting the impact of programs and services on the local community
- A list of community partners and how the hospital works with those partners on behalf of the community
- A community benefit "inventory," or table showing the breakdown of total resources devoted to medical services, care and benefits for vulnerable populations, and services to the broader community
- Measurable results of community benefit activities
- Financial information, including financial statements, sources of revenue and expenses, and vital statistics

does not work. Different constituencies have different needs and different confidence "trigger points."

People throughout the community need to be informed and engaged in meaningful discussions about the role and value of the hospital, and the benefit it provides that is unique to them and their needs. It's only through this kind of customized community connection that the hospital will be able to build a broad body of advocates in every corner of the community to support what Dick Davidson, the former president of the AHA called hospitals' "rightful place as valued and vital community resources that merit broad public support."

### Determining Value and Communicating the Message

Creatively and consistently conveying the value message is accomplished through a community benefit report that defines and communicates the true benefit and value hospitals create, not simply the economic value they provide, or the economic multiplier they create.

Accomplishing that requires an organization to be willing to think differently about what benefit and value are, to be passionate about helping the community make the connection, and willing to make a community value and

## Critical Questions Every Hospital Board Needs to be Able to Answer

### Using Your Community Benefit Report to Maximize Understanding, Loyalty and Support

benefit reporting process more than a one-time effort that's undertaken because it's the "solution of the day."

Instead, it's the bedrock for building a lasting foundation of community understanding and community willingness to join the fight to improve health care funding, remove unnecessary governmental and regulatory barriers, and ensure the long-term future of the hospital. It's useful as a community support and loyalty-building tool, an advocacy tool, a business-building tool, a volunteer-raising tool, and a board recruitment and orientation tool.

### Developing a Community Benefit Report

There are a number of different approaches hospitals may use to share information publicly about their commitment to their local communities, and about the services and benefits they provide. It is important that hospitals provide this information to help their communities understand the kinds of services that are available to them, and also to respond to calls for greater public accountability for hospital activities.

Because each hospital and community is unique, no single approach works best for all. It's essential to create an organized, well-crafted document that clearly and powerfully describes all of the services and benefits the hospital provides, along with a translation of the impact of the hospital's activities and efforts on community health.

The American Hospital Association has offered a checklist to help ensure hospitals have created a document which demonstrates each hospital's unique story about what the hospital is doing and how it helps serve the community. There are a number of factors hospitals should consider when developing a community benefit report:

- ***The hospital's mission, values, and goals must be clear to employees, medical staff, and the public.*** The mission/values/goals are clearly described, easily understood, and communicated throughout all levels of the organization and surrounding communities.

- ***Community connection is demonstrated.*** There is a clear understanding of the social, geographic and economic characteristics of the hospital's community. The hospital recognizes the unique health trends of the community and what barriers to care exist. In addition, the hospital has clearly defined its connection to other governmental and social service organizations when conducting a community needs assessment.
- ***A comprehensive inventory of the benefits the hospital provides to the community are available.*** The needs of the community that are being met through inpatient diagnostic and treatment services should be made available in a language easily understood by all. Additionally, the value and effect of outpatient, off-site and extended care services should be presented. The hospital should identify programs and services targeted to the hospital's communities and vulnerable populations.

Not only should these services be made aware to the community, but the hospital should work to eliminate the economic, social, and cultural barriers that exist. A master list of each community program offered by the hospital should be created that helps emphasize the community benefit the hospital provides. Furthermore, to ensure continued support for the programs offered, the hospital should work with community funding organizations to guarantee financial assistance.

- ***The impact the hospital's programs and services have on the community the hospital serves are emphasized.*** Hospitals should estimate how many people have been impacted by the services provided. In addition, hospitals should gather information on the impact their services have had on their community's health status. From this data, hospitals can then modify and/or improve any services to better suit the needs of the local community.

# Q: What is population health and why is it important?

Improving the health of the community is the driving mission for most, if not all, hospitals. The goal of population health management is closely aligned with that mission and may seem to be a logical and perhaps easy step for hospitals and health systems to take. Managing the health of a population has significant implications for hospitals and health systems that are important for trustees to understand.

**P**opulation health and value-based care are inextricably linked together. Value-based care is the shifting system in which health care providers are paid based on patient health outcomes, rather than the traditional “fee for service” system of payment. Population health is a broader focus on improving the health of individuals and communities. The Centers for Disease Control and Prevention (CDC) describes population health as an approach that utilizes non-traditional partnerships in different sectors of the community to achieve positive health outcomes.<sup>1</sup>

Hospital and health system trustees must have a solid grasp of the meanings and implications of population health management and why it’s important to the future of their organization and the community as a whole.

## Understanding Population Health

The Pathways to Population Health initiative describes six concepts that form the foundation for pathways to population health, divided into two categories: What creates health, and how health care can engage.<sup>2</sup>

### **Foundations that create health:**

- Health and well-being develop over a lifetime.
- Social determinants drive health and well-being outcomes throughout the life course.

- Place is a determinant of health, well-being, and equity.

### **How health care can engage:**

- Respond to the key demographic shifts of our time.
- Embrace innovative financial models and deploy existing assets for greater value.
- Invite partnerships because health care is only one part of the puzzle.

Simply put, population health management means improving the overall health of a population. This includes identifying individuals with the highest-risks (both acute and complex health conditions), and determining the best means for keeping them healthy. It also means determining and addressing the preventive and wellness needs of the rest of the population.

## Why is Population Health So Important?

In today’s value-based world, providing high quality care and improving health outcomes significantly affects hospital and health system’s ability to succeed. This starts with impacting social determinants of health. Social factors are connected to increased risk for chronic health conditions, decreased access to medical care and consistently poorer health outcomes. One study found that **medical care accounts for only 20 percent of all factors that influence health.**<sup>4</sup>

### Understanding Determinants of Health

Social determinants of health (the conditions in which people are born, grow, live, work and age) have a significant impact on overall health and quality of life.<sup>2</sup>

Research has shown that social factors such as racism, social isolation, violence, inadequate housing and inadequate employment impact poor health outcomes and premature death by 50 percent more than access to health care alone.<sup>2</sup>

“Children born in the same hospital who grow up two miles apart might have a 10- to 25-year difference in predicted life expectancy because of place-based determinants of health.”<sup>2</sup>

**Mission Fulfillment.** If medical care only impacts health by 20 percent, how can hospitals fulfill their community-focused mission by exclusively providing medical care? In short, they cannot. As a central component of their mission, hospitals and health systems must understand the greatest community needs and work to address those needs. That requires addressing individual needs, community-wide needs, and systemic issues that lead to poor health.

**Value-Based Purchasing.** Population health management isn't just an opportunity to better fulfill the mission. It's also an opportunity to positively impact the bottom line. Value-based programs link reimbursement to patient outcomes. According to CMS, value-based purchasing is part of a broader quality strategy to reform how health care is delivered and paid for. It has three aims:<sup>6</sup>

- Better care for individuals
- Better health for populations
- Lower costs

Population health management has the potential to influence all three of these areas.

**Systemic Savings.** According to the American Hospital Association's Futurescan report, it is projected that \$230 billion could be saved if health equity improved in the United States. A 2020 study found that every \$1 invested in community health worker interventions addressing unmet social needs results in a \$2.47 return to the average Medicaid payer.<sup>4</sup>

A study by The Commonwealth Fund reported similar findings in a study focused on meeting the needs of high-need, high-cost patients. The authors concluded that “holistically addressing the social and medical needs of such patients can improve their health outcomes and produce health care savings by reducing the use of expensive health care services such as emergency department visits and hospitalizations.” The Commonwealth Fund study focused on interventions in six areas: housing, nutrition, transportation, home modification, case management and counseling (legal, financial and social supports).<sup>5</sup>

### What Is In the “Population”?

One of the first and most important steps in managing the overall health of a population is to define who's included in the “population,” or group of people whose health is to be “managed.” A population can be defined in multiple ways, including: 1) individuals within a specific geographic area, such as the hospital or health system's community or service area; 2) a patient population, such as a physician practice group's patients or a hospital's discharged patients; or 3) a payer group, including Medicare patients assigned to an Accountable Care Organization (ACO), patients covered under a particular insurer's benefit plans or employees of a particular employer. A population may also be defined by a particular health condition, such as diabetes, asthma or cardiac conditions.

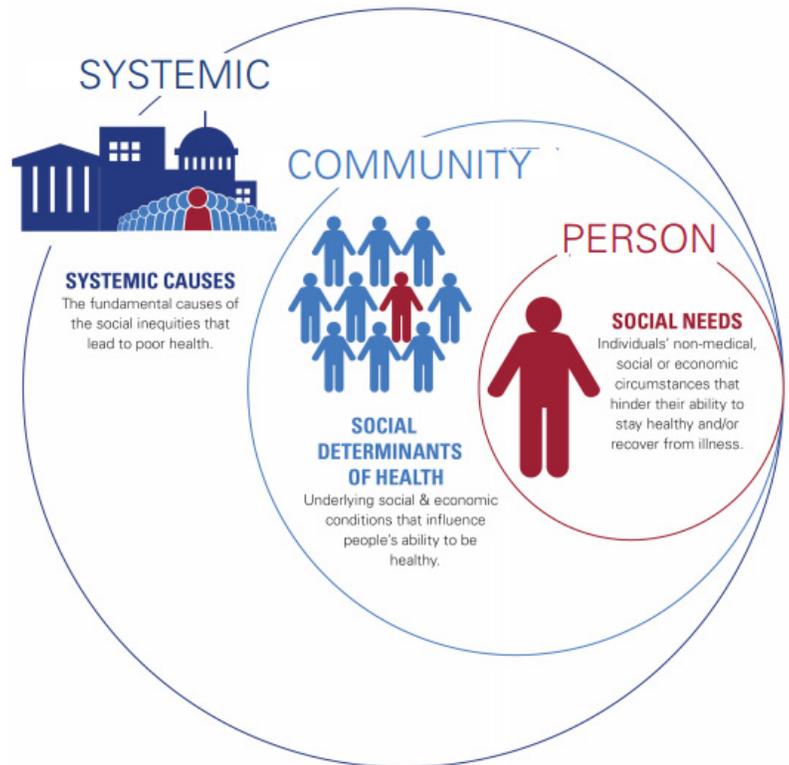
There are a number of ways to define a group of individuals whose health the hospital or health system wants to positively impact. The key is to ensure a clear definition of the population in question from the start. The ability to measure the impact and outcomes of various health care interventions is dependent on knowing exactly what the target population is.

### AHA: Societal Factors that Influence Health

Hospitals are often the cornerstone of their community. They have an opportunity and an obligation to improve the community's overall health. The American Hospital Association has developed a framework that helps hospitals guide their strategies to address the social needs of their patients and communities, focusing on systemic issues that lead to health inequities and ultimately overall health.

As hospitals and health system leaders develop strategies and collaborate with others, efforts should focus on three areas:

- **Person:** Meeting individuals' non-medical, social or economic circumstances that hinder their ability to stay healthy and/or recover from illness. Some examples include lack of stable housing, homelessness, limited access to food, loneliness or an unsafe home environment.
- **Community:** Hospitals can address underlying social and economic conditions in the community served. Examples include food deserts, lack of affordable housing, community violence or public transportation.
- **Systemic Issues:** Addressing the fundamental causes that lead to poor health, which may include racism, sexism, poverty, environmental injustice or educational systems.



Source: *Societal Factors that Influence Health: A Framework for Hospitals*. American Hospital Association. December 2020. [www.aha.org/societalfactors](http://www.aha.org/societalfactors).

### Taking Action

Many hospitals are already implementing population health efforts. A recent AHA survey of more than 1,000 hospitals found that:<sup>7</sup>

- 77% of hospitals screen patients for social needs.
- 66% document patients' social needs in their electronic health record.
- 82% of respondents include population health management in their broader organizational strategies.

At the same time, nearly 70 percent of those surveyed reported that while they do use community investment strategies, they don't yet measure the returns generated from those investments.

There is still much work to do. While the size and resources of a hospital or health system and its community may define the scope of the population health strategies the organization is able to undertake, every hospital has the potential to significantly impact population health.

**Common Vision.** When the board and the CEO agree upon a common vision for community and population

### Rural Hospital Examples

Population health is important for every hospital and health system, but rural hospitals face unique challenges as they work to improve the health of the community and maintain financial viability at the same time. Expert recommendations include:<sup>8</sup>

- Leverage existing community resources and partnerships to make the biggest impact.
- Use data in existing electronic health records to create a registry that identifies and tracks patients that would benefit from chronic care management, such as diabetes, hypertension or depression.
- Use telehealth to remove barriers and connect with individuals in the community and build a better understanding of patients' needs.

health, and all key players, including the medical staff, are working toward that same vision, the path to achievement becomes a little easier and the outcomes are more effective. To get there, the board and CEO must agree upon and clearly articulate the extent of the commitment and engagement of the organization in community and population health efforts.

**Targeted Health Needs.** Identifying targeted health needs is a first step in population health management. Hospitals and health systems may choose to target quality and patient safety by selecting an area in which the organization's health outcomes measures fall short. A hospital or health system may also want to focus its efforts on one or more of the health needs identified in a community health needs assessment, or where it experiences a high rate of admissions. Many organizations are also working to improve the coordination of care between providers.

**Interventions.** Once a target health care need has been identified, the contributing causes or factors must be identified, and possible strategies for addressing them must be evaluated. Hospitals and health systems must assess and prioritize efforts to pursue. This includes consideration for where the organization can have the most critical impact or influence. It is also an opportunity for trustees to consider the long-term goals for a healthy

population, to challenge common assumptions and the status quo, and to seek out new and creative partnerships and collaborations that will engage, motivate and inspire patients and the community.

**Partnerships and Collaborations.** Many factors are outside the hospital's control or they may exceed the hospital's resources. The network of partners and collaborative relationships that were established when the hospital conducted its community health needs assessments is a good place to begin when identifying opportunities to address a population's health concerns. Public health departments and other social service agencies have years of experience and expertise to contribute to collaborative public health efforts.

Trustees should recognize that they themselves are a good resource for identifying potential partnerships and collaborations. Lay trustees in particular can contribute new, different and community-based views of unique partnerships and collaborations. Trustees generally have networks of community contacts that can lead to new and innovative alliances for improving the community's health.

**Clear Accountabilities.** As hospitals and health systems forge new relationships with others in the community, the ability to navigate a path to success is often dependent on clear expectations set from the beginning, which are understood and agreed to by all parties. Expectations should include roles, responsibilities, goals and objectives, and project plans, all well-defined and agreed upon.

**Measured Outcomes.** To demonstrate improvement and ultimately earn revenue in a value-based system, the organization must have the ability to establish a baseline of measurement and track and measure outcomes and improvements in quality, patient safety and health.

**Data and Technology.** Data and technology are critical for successful population management. Technology can help identify populations with the greatest needs, identify care gaps and measure the potential and actual impact of various population health efforts.

**Available Resources.** Hospitals must carefully weigh the cost of potential improvements to support population

## Critical Questions Every Hospital Board Needs to be Able to Answer

A Trustee Guide to Understanding Population Health

### Critical Questions for Boards

- Does your board have a good understanding of population health management and its importance to your organization?
- Has your board made a commitment to improving population health?
- Does your hospital or health system have the infrastructure necessary for managing population health? If not, what actions does the board need to take to ensure the hospital or health system is able to develop population health management as a competency?
- Do you know what strategies the organization is pursuing to manage and improve population health? Does the board maintain adequate oversight to ensure successful outcomes?
- Do you know what efforts others in your community or region are pursuing to manage and improve population health? Are your efforts well-aligned or are they duplicative? Could joining forces create a more successful outcome for the community?
- Is your organization maximizing its resources, efforts and potential impact through partnerships and collaborations? If “the whole is greater than the sum of its parts,” what opportunities should or could the organization pursue?

health against their already strained resources. The good news is that hospitals aren't alone in population health efforts. Boards must lead the way in establishing partnerships with others who will share the responsibility for improving the community's health and best maximize the benefit of scarce resources.

### Resources for Hospital Leaders

The American Hospital Association has wide-ranging resources for hospitals and health systems to help leaders understand populations, engage new partnerships, take system-level action, and measure and

sustain progress. Case examples provide practical examples of actions hospitals are taking. For more, go to [www.aha.org/center/population-health](http://www.aha.org/center/population-health).

### How is Success Defined?

Ultimately, the hospital or health system's board of trustees is accountable for the organization's success. In a value-based system, success is increasingly defined not only by financial viability, but by the organization's ability to fulfill its promised mission to positively impact and improve the health of its community.

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# Q: How does the board ensure strong collaboration with the medical staff?

The hospital/medical staff relationship should be a trusting partnership, where both the medical staff and hospital work closely together to provide quality care for patients. But hospitals and medical staffs often have differing perspectives and unique cultures, which can lead to a disconnect between the two. There are actions that board members can take to improve alignment to build a high functioning, strong hospital and medical staff relationship.

**A**s the relationship between hospitals and physicians evolves, it is more important than ever for hospital boards to have a strong, trustful relationship with the medical staff. While the financial relationship between hospitals and physicians is different between organizations, there are many challenges related to hospital/medical staff relationships that arise in hospitals of all types and sizes.

First, hospitals and physicians simply have different financial needs and financial pressures. These pressures can result in split interests, and a sense of disconnection. It's important for board members to understand how those financial pressures differ, as well as where they converge.

Second, hospitals and physicians don't always share the same mission, values and vision. The hospital's mission and vision is typically much broader and more community health improvement centered, while physicians' mission is more narrowly focused on individual patients and practice development. This is an area that is growing in alignment as hospitals and physicians increasingly collaborate together, but there is room for improvement.

Finally, like everything that happens in the hospital/medical staff relationship, board inattention to the importance of building a culture of collaboration, cooperation and the pursuit of opportunities with mutual self-interest can contribute to the development of

problems that may remain below the administrative and governance radar screen.

The hospital/medical staff relationship should be a trusting partnership, where both the medical staff and the hospital's executives and governing board work closely together to provide consistently high quality, safe care for patients.

## The Transition to Value-Based Care Makes Hospital/Medical Staff Alignment an Imperative

One of the most frequent criticisms of the nation's health system has been its fragmented, fee-for-service structure. Critics have long argued that this structure encourages providing a greater volume of services over focusing on services that provide superior quality and outcomes and/or reduce costs.

As the U.S. health care system transitions to one based on value, priorities shift toward efficiency, care coordination, transparency about cost and quality, patient access to information, and addressing broader patient and community needs impacted by social determinants of health.

This transition to value-based care, combined with the increase in hospital mergers, acquisitions and other

### Patient and Physician Loyalty are Tied Together

**“In today’s consumer-driven, value-based health care market, patient and physician loyalty are two of the most important concerns facing health care leaders.”** - Patrick T. Ryan, Executive Chairman, Press Ganey.

**“Physicians want to practice medicine in a setting where they perceive collaboration across the care team, a strong partnership with the organization, and support for delivering safe, high-quality, patient-centered care.”** - Thomas H. Lee, Chief Medical Officer, Press Ganey

A white paper from Press Ganey reports an interdependency between patient and physician loyalty, most notably:

- Patients’ perception of caregiver teamwork is the strongest predictor of patient loyalty in the inpatient and medical practice settings.
- The strongest patient loyalty driver in the emergency department is patients’ perception that the staff cared about them.
- Feeling respected by their physicians, being treated courteously by both physicians and nurses, and perceiving caregiver responsiveness to their concerns are also strong predictors of patient loyalty.

Source: Ganey Identifies Key Relationships between Patient and Physician Loyalty to Focus Improvement Efforts. Press Ganey News. *Based on White Paper “A Unified Approach to Driving Patient and Physician Loyalty.”* June 6, 2019. [pressganey.com](http://pressganey.com).

partnerships, makes alignment between hospitals and physicians even more important.

**True Physician Integration.** Today’s health care transformation encourages more than hospitals and physicians cooperating to care for patients. It requires hospitals and physicians to provide integrated care - care that is coordinated, uses seamless technology, and involves providers across the spectrum working together to care for each patient as an entire “episode of care.”

This is a necessary shift in thinking for many health care leaders. Hospital trustees and leaders should be preparing for that shift now, working jointly with their medical staff and other providers in the community to develop shared solutions and forge partnerships that will provide better care and prepare all health care providers for a successful future.

**Preparing the Hospital for Increased Care Coordination.** As organizations transition to increasingly coordinated care, trustees should consider the following questions:

- How well aligned is the hospital and its medical staff?

- Are physicians meaningfully involved in hospital decisions that impact patient care and physician practices?
- How vibrant are physicians’ voices in the hospital’s strategic thinking and planning processes?
- Does the hospital work closely with the medical staff and other providers in the community to develop shared solutions and forge new partnerships that will be mutually beneficial in this new era of coordinated care?

### Historical Causes of Misalignment

The differences in the drivers and mindsets of physicians, administrators and trustees are often significant. But the facts of professional training, experience, needs and expectations must be taken into account as alignment strategies are developed.

The environment in which physicians do their jobs, and the environment in which administrators and board members carry out their responsibilities are very different.

**Traditional Physician Perspectives.** Physicians are trained to react quickly and provide evidence-based diagnoses and treatments. In many cases they're expected to have an immediate response and make rapid decisions under her intense time and emotional pressure. In addition, many work autonomously and independently as advocates for individual patients in their care. Many physicians identify primarily with others in their profession, and by nature think, plan and act independently.

**Administrative Perspectives.** In contrast, organizational leaders and board members tend to think long-term, engaging in broad group discussions about organizational issues that may not be decided for weeks, months or years. They're individuals who delegate much of their work to others and collaborate with broad range of constituents and stakeholders. And rather than focusing on individual patients, they have a fiduciary responsibility to meet the needs of the broad community in both clinical and non-clinical ways. Rather than relying on their independence, they instead value an ethic of interdependence on one another for consensus-based thinking and decision-making.

**Amplifying the Challenges.** While the differing perspectives of physicians and organizational leaders creates challenges, there are other systemic barriers that have historically amplified misalignment:

- Poor communication, often due to cultural divisions and false assumptions between physicians and executives. For example, the false assumption that all physicians are alike.
- Lack of trust, which can be fueled by the potential for hospitals and physicians to have a competitive relationship with one another.
- Lack of appreciation for the challenges physicians face. As providers increasingly face burnout, it is the responsibility of organizational leaders to understand the challenges they face and encourage a culture that understands and supports clinicians as they care for patients.

## Provider Burnout

Reports estimated a provider burnout rate of nearly 50 percent among practicing physicians in the United States before the COVID-19 pandemic hit in 2020.<sup>2</sup> The impact of provider burnout is far-reaching, impacting not only the health of individual physicians but also quality of care and the work environment for the entire care team.

In a comprehensive JAMA analysis, researchers found that physician burnout is associated with:<sup>3</sup>

- **Increased health risk** for cardiovascular disease and shorter life expectancy, problematic alcohol use, broken relationships, depression, and suicide.
- **A two-fold increase in unsafe care**, unprofessional behaviors, and low patient satisfaction.
- **All burnout measures are associated with increased patient safety incidents**, including emotional exhaustion, depersonalization and personal accomplishment. In addition, symptoms of depression or emotional distress in physicians were associated with a two-fold increase in patient safety incidents.

After reviewing 47 studies of more than 42,000 physicians, the authors concluded that their findings “provides evidence that physician burnout may jeopardize patient care; reversal of this risk has to be viewed as a fundamental health care policy goal across the globe. Health care organizations are encouraged to invest in efforts to improve physician wellness, particularly for early-career physicians.”

## Steps to Build Alignment

**Trust.** Trust is an essential part of any successful relationship and is critical for building successful, lasting relationships. Without trust, doubt, uncertainty and reservations will ruin any potential for alignment.

Renew trust and create an alignment between the hospital and medical staff by understanding the needs of both entities and using a board-driven alignment strategy

### AHA Well-Being Playbook: Reducing Provider Burnout

The American Hospital Association's Physician Alliance "Well-Being Playbook: A Guide for Hospital and Health System Leaders" provides seven steps to address provider burnout:

1. **Create infrastructure for well-being.** Create a sustainable culture of well-being, starting with a commitment from top leadership. This includes a dedicated budget for well-being practices.
2. **Engage your team.** Facilitate opportunities for engagement, including small group sessions and open-ended surveys to get feedback from front-line providers, non-clinical administrators and clinician executives.
3. **Measure well-being.** Measure well-being at least annually to benchmark and evaluate ongoing initiatives. Encourage employees to respond honestly, and follow up with issues raised.
4. **Design interventions.** Once you know the top drivers of stress and burnout, develop solutions that are feasible and effective. The AHA suggests that solutions fall into the following categories: improving employee input, increasing employee recognition, improving quality, improving efficiency, increasing resiliency (providing training and coaching), and cultivating community.
5. **Implement programs.** Start with initiatives that are easily implemented and help build buy-in and momentum, and advance to more complex interventions.
6. **Evaluate program impact.** Continually evaluate the impact of programs, and make modifications as necessary.
7. **Create a sustainable culture.** Continue to survey employees and review the effectiveness of programs, and celebrate wins often. Consider developing a dashboard of well-being projects to keep all engaged.

Source: Well-Being Playbook: A Guide for Hospital and Health System Leaders. American Hospital Association Physician Alliance. May 2019. [www.aha.org/physicians](http://www.aha.org/physicians).

Specific ideas for establishing trust include:

- Make a clear commitment to support physicians in the turbulent economic and operational challenges they face.
- Answer commitments with concrete actions to make the hospital a more productive, efficient environment for physicians.
- Include physicians in various stages of planning and budgeting to give them more responsibility for the hospital or health system.
- Respond to physician input about quality and the general practice of medicine at the hospital.
- Keep the board up-to-date on increasing restrictions and economic challenges that physicians face. Allow opportunities for the medical staff to share these issues with board members directly.

**Communication.** Communication is a critical first step to improving any relationship, and a foundation for building trust. Communication should be encouraged throughout the organization, such as team huddles. Similarly, communication at the system level helps leaders understand the burdens providers face and gives physicians an opportunity to share their viewpoints and have greater representation in leadership thinking.<sup>2</sup>

Specific ideas for strengthening communication include:

- Make the CEO regularly available to physicians through dedicated time listening to and communicating with members of the medical staff.
- Create systems that alert physicians of critical issues. Allow the medical staff an opportunity to provide input with the board about these issues before decisions are made.

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### Ensuring Board Support and Collaboration with the Medical Staff

- Create a means for regular communication with the entire medical staff.
- Provide physicians with a forum to provide input into important decisions before they are made.

**Voice.** Allow physicians to share their expectations, experiences and ideas in order to encourage a relationship built on trust and communication. Provide physicians with a voice by:

- Giving physicians adequate representation on the board and on relevant board and hospital committees and subcommittees.
- Including medical staff leaders at meetings where critical issues are discussed.
- Creating a formal program for training physician leaders.

**Relationships.** Building positive relationships between physicians and executives is critical. Strategies to improve relationships include:

- Conduct an assessment of the current relationship and identify strengths and weaknesses that need to be addressed.

- Provide assistance to help physician groups develop organizational maturity.
- Address conflict at the earliest possible stage.
- Monitor the relationship and look for opportunities to constantly improve it.
- Host informal social gatherings to promote relationship growth between administrators, board members and medical staff.
- Create opportunities for community events where executives, physicians and board members can see first-hand the impact of their joint initiatives.

**Training.** Many physicians have received little training in the leadership and team skills required in today's collaborative environment. For example, physicians may be interested in training in Lean and Plan-Do-Study-Act principles help shape their thinking to strengthen patient satisfaction, ultimately overall care. Physicians should also be offered coaching and mentorship to help implement the leadership skills they learn as well as manage the stress encountered in their daily practice.<sup>2</sup>

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# Q: What is the board's role in medical staff credentialing?

As a board member you understand the commitment your organization has to the community to deliver excellent, safe patient care. Do you know, however, the impact you have on this commitment at every board meeting when you appoint and reappoint members of the medical staff?

**M**edical staff credentialing and privileging are two of the most important tasks boards undertake to assure quality of care in their organizations.

The overall objective of credentialing and privileging is to ensure that only qualified doctors (and others who qualify as 'medical staff' due to making diagnoses and prescribing treatment) are admitted to and remain on the hospital's medical staff, and that they practice within their scope of experience and competence.

## What is Credentialing and Privileging?

Medical staff credentialing is a two-pronged process that involves establishing requirements and evaluating individual qualifications for entry into a particular medical staff status (e.g. active, courtesy). The types of medical staff status are delineated in the medical staff bylaws.

Medical staff membership generally includes all providers who will be diagnosing and treating patients at any of the hospital/health system's sites of care. This includes providers who are working in hospital-sponsored/owned outpatient clinics and contracted providers.

The scope for medical staff credentialing and privileging is broader than allopathic and osteopathic physicians, dentists and podiatrists. The scope includes advanced practice nurses (such as nurse midwives, nurse anesthetists, nurse practitioners), physician assistants and psychologists.

Credentialing first involves considering and establishing the professional training, experience, and other

requirements needed for medical staff membership. The second aspect of credentialing involves obtaining and evaluating evidence of the qualifications of individual applicants. Basically, credentialing is verifying that each applicant:

1. Is who he/she claims to be;
2. Has been properly licensed and as appropriate, board-certified (or board-eligible);
3. Has appropriate malpractice insurance; and
4. Meets minimum requirements established by the hospital to be on staff (education and experience).

**Credentialing Verification.** In past years, credentialing verification was no more complicated than having the applicant present some form of documentation, such as a diploma or certificate.

Today's credentialing, however, goes far beyond this approach and requires primary source verification – direct contact and verification from the sources of credentialing, such as schools, residency programs, and licensing agencies – to guarantee that statements of education, training, experience and other qualifications are legitimate. Primary source verification is not only important in meeting requirements of major accreditors and regulators, such as The Joint Commission and the Centers for Medicare and Medicaid Services (CMS), but also critical in avoiding legal problems, managing risk and ensuring quality patient care.

For large systems, credentialing may be centralized at a corporate level. There are a number of commercial software tools available to help track and document compliance with medical staff requirements for credentialing. For small organizations, tracking medical staff credentialing is frequently done by the Medical Staff Office, often using simple spreadsheets. Accountability for obtaining initial credentials and keeping these credentials current is a critical aspect of meeting accreditation and regulatory requirements.

**Granting Privileges.** After verification that the applicant is initially properly credentialed, the next step is initially granting privileges. Privileging is a three-pronged process that determines:

1. The diagnostic and treatment procedures the provider is approved to perform, assuming that the hospital is equipped and staffed to support those areas;
2. Given the nature of the requested privilege, the applicant's training and experience necessary to competently carry out each privilege requested; and
3. Whether the credentials of applicants meet minimum requirements and then approve authorization to carry out requested procedures, treatment and care management.

A unique circumstance may occur when either: a) emergencies strike the hospital and there is a need for 'temporary privileges' to help in a crisis; or b) there isn't sufficient immediate coverage of a particular clinical area and urgent clinical assistance is required from a provider from another location. Temporary privileges are generally granted through the Chief Medical Officer, Medical Executive Committee and the CEO. They are intended for only a short duration and should be carefully granted and eliminated when no longer necessary.

### The Board's Role in Credentialing and Privileging

The board of trustees assumes all legal responsibility for the hospital and is ultimately responsible for approving all bylaws, policies and procedures. The board has two

### Delineation of Clinical Privileges

"Delineation of clinical privileges" determines what procedures, processes and treatments (including experimental and/or research protocols) may be performed by the provider and which conditions each medical staff member may treat. As new technologies are developed and new subspecialties evolve, privileging medical staff members will become more challenging for organizations and their leaders.

Delineation of privileges is an ongoing process that must not only be flexible enough to add new procedures or conditions to treat, but also be objective, evidence-based and consistent.

Additions to privileges should be considered when:

- Providers learn new technologies (e.g. lasers, robotics)
- The nature of that medical treatment has changed (e.g., laparoscopic surgery)

Privileging reductions should be linked to the peer review of medical staff quality of care, with privileges suspended or terminated when the provider is not meeting the quality standards.

key functions in credentialing and privileging: 1) Attend to process; and 2) Decision making.

**Attend to Process.** The board must delineate steps of the credentialing and privileging processes and specify/approve criteria that it uses to make recommendations or decisions at each step. They also must ensure that the process is thorough, fair, consistent and functioning effectively.

Questions the board may want to ask to ensure these objectives are being met in the process:

- Are the steps of the credentialing and privileging processes and the specific responsibilities of various individuals and groups clearly delineated in the medical staff and board's bylaws and/or policies?
- Are the criteria used at each step of the process explicit, objective, valid and reasonable?

## Critical Questions Every Hospital Board Needs to be Able to Answer

### The Board's Role in Medical Staff Credentialing

- Is the data needed for effective credentialing and privileging consistently available for the processes to be completed effectively?
- Does the privileging process tie to the medical staff quality of care evaluation results?
- Does the board periodically assess the extent to which it follows the specified process?
- Within the last several years, has the board evaluated its credentialing and privileging processes to ensure that they are conforming to applicable laws, regulations, and Joint Commission standards?

**Decision Making.** The board must ultimately decide which providers will be admitted to the medical staff (initial appointment), allowed to remain on the medical staff (reappointment), and which procedures and/or treatments they can perform and which diseases/conditions they may treat (privilege delineation).

Although in the past the board's role in credentialing and privileging has often been minimal, recently boards are becoming more intricately involved in the credentialing and privileging processes. In many instances, boards are designating responsibility for appointment and privilege decisions to a board subcommittee that better understands the complexity of the issues and that the board has authorized to act on its behalf in such matters. The credentialing and privileging processes require more oversight from the board than most areas of governance; board active participation is integral in assuring viable, effective credentialing and privileging processes and a high-quality medical staff.

### Background Checks

One essential component of credentialing is utilizing practitioner data banks that allow organizations to gather pertinent background information on physicians. The intent of these data banks is to protect the public from incompetent practitioners and reveal any negative sanctions taken against specific providers.

In addition to basic background checks, many health care organizations are now conducting drug screening

### Key Board Roles

The board has two key functions in medical staff credentialing and privileging:

- **Attend to process**— Delineate the steps in the process and specify/approve criteria used to make recommendations or decisions at each step. The board must also ensure that the process is thorough, fair, consistent and functioning effectively.
- **Decision making**— The board must ultimately decide which providers will be admitted to the medical staff, allowed to remain on the medical staff, and which procedures and/or treatments they can perform.

testing and doing criminal background checks to further guarantee the safety of their patients.

### Investigative/Corrective Action

Even though most organizations go through a stringent process of provider credentialing and privileging medical staff members, there are times when organizations or individuals may want to “reverse the process” and remove a physician or other provider from the medical staff. These processes are generally outlined in the medical staff bylaws. Hospital legal counsel and/or risk management typically becomes involved if investigative and/or corrective actions need to be addressed with a medical staff member.

An investigation may be initiated whenever a practitioner with clinical privileges exhibits behavior – either within or outside the hospital – that is likely to be detrimental to the quality of patient care or safety, the hospital's operations or the community's confidence in the hospital. An investigation may be initiated by any medical staff officer, the chair of the department in which the practitioner holds appointment or exercises clinical privileges, the CEO, the MEC or the governing board. All requests for investigations should be submitted in writing to the MEC.

Prior to determination by the MEC if an investigation should be undertaken, often the individual or committee

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### The Board's Role in Medical Staff Credentialing

requesting the investigation may ask for an interview with the involved practitioner. This assists in gathering information for the decision of whether or not there is relevant cause for further examination. If the decision is made to continue the investigation, there are generally two forms of suspensions that may affect the individual involved: automatic suspension or summary suspension.

**Automatic Suspension.** Automatic suspension of the involved practitioner will take place if:

- The practitioner's state license to practice or DEA number is revoked, suspended, restricted, or placed under probation;
- The practitioner fails to satisfy or has falsified an interview requirement;
- The practitioner fails to maintain malpractice insurance; and/or
- The practitioner's medical records are not completed in a timely manner.

**Summary Suspension.** The CEO or any member of the MEC or the governing board may initiate summary suspension of the involved practitioner's medical staff status or clinical privileges. Summary suspension is typically initiated whenever a practitioner's conduct

requires that immediate action be taken to prevent immediate danger to life, or injury to him or herself, patients, employees, or other persons present in the hospital.

After a summary suspension, the MEC will typically convene to review and consider the suspension. The MEC may recommend modification, continuation or termination of the suspension. Unless the MEC recommends immediate termination of the suspension, or one of the lesser sanctions, the practitioner is entitled to the procedural rights contained in a "fair hearing" as outlined in the medical staff bylaws. Any and all decisions or conclusions that are drawn by the MEC are assessed by the governing board before any final decision is made.

Finally, any applicant who has been denied appointment, clinical privileges or reappointment, or who has been removed from the medical staff during the appointment year, usually may not reapply to this hospital for a period of one year (12 months), unless specified otherwise in the terms of the specific corrective action, consistent with the bylaws.

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# Q: How should the board gauge the hospitals' financial performance?

The board is responsible for ensuring the financial success of the organization. In order to fulfill this fiduciary responsibility, trustees must have a solid grasp of the indicators of the health care organization's financial health and be knowledgeable about key financial interrelationships.

**F**or the lay person, or the person with limited knowledge of financial statements and financial statement analysis, the issue of corporate governance and oversight as they relate to financial statement analysis can be an intimidating task. In order to effectively serve as a board member, trustees must begin by understanding their responsibility as a board member and then learn the financial basics necessary to fulfill their role.

## The Board's Role in Financial Oversight

The board is responsible for the financial success of the organization and fulfills a fiduciary responsibility that is defined as: a duty of organizational loyalty; a duty of care through application of business judgment; and a duty of obedience in abiding by laws, regulations and standards of hospital operations.

Boards have a broad responsibility to protect the limited resources of the organization to ensure optimum services and benefit to the community. The board must ensure the cost-effective utilization of resources and the establishment of both long-range and short-range financial plans. The board should regularly review meaningful and understandable financial reports, ensure that adequate capital is available for investment strategies, and actively participate in and encourage regular philanthropic efforts.

**One of the most critical functions of the governing board is protecting the organization's financial status.** The board should establish financial goals in a variety of key areas, including growth, debt capacity, return on equity and other areas that define financial success. The board approves the annual operating and capital budgets, receives and approves a variety of budget reports throughout the year, primarily through a finance committee, and oversees the organization's investment policies and goals.

In addition, boards of trustees are typically involved in assessing the impact of the hospital pricing strategies and discount policies and become involved in discussing and approving contractual arrangements and other determinants of financial performance. Boards also determine policy on uncompensated care, provision of needed community services that may not be financially viable, and development of diversified revenue streams.

**A shift toward value-based care.** Over the years, Medicare and Medicaid payments have not kept pace with inflation and hospitals have increasingly experienced financial difficulties. For example, one of the primary objectives of the Affordable Care Act (ACA) was to shift the nation's health care delivery system from one that is paid based on volume (the number of services received/fee-for-service) to a payment system based on value (payment for high quality, cost-effective care). Enactment of new payment systems drive further reductions in revenue if hospitals fail to prevent

readmissions, have a high incidence of hospital-acquired conditions, or fail to achieve or improve value-based quality scores.

**Compliance with laws and regulations.** Boards are responsible for ensuring that the hospital consistently complies with all applicable laws and regulations. With the federal government's emphasis on detecting and punishing health care fraud, trustees must ensure that an ethical business climate always exists in the hospital, and in particular that financial procedures and processes are conducted in an ethical manner.

### Compliance

A strong and effective compliance plan is a comprehensive strategy that ensures that the organization consistently complies with all state and federal laws governing its activities and the delivery of health care. It also ensures that organization consistently complies with the applicable laws relating to its business practices.

A key board responsibility is determining the hospital or health system's financial goals and monitoring its operations to ensure the attainment of those goals. The annual budget is the primary vehicle for the board and administration to establish financial objectives. Board members must clearly understand the assumptions upon which the budget is based. Budget assumptions should be reasonable and clearly understood and should tie directly to service development and to the mission, vision and strategies.

The governing board also has a responsibility to engage external auditors to perform an annual audit of the financial records. This audit helps the board determine if the financial position and operations are accurately and fairly presented, and are in accordance with generally accepted accounting principles. The board should use the audited financial statements to determine whether the hospital is reaching its established financial and operational targets; it should be a tool in helping to determine progress and assess whether goals and strategies require modification.

The board's financial planning direction and decisions should flow out of the long-range strategic planning initiatives. Studies of the financial feasibility of new

### Financial Questions for Boards to Consider

When reviewing the organization's finances, the board should know answers to questions such as:

- What is your organization's payer mix? How is it changing?
- How have recent events impacted the organization's financial viability?
- What are the organization's major investments, and are they financially sound?
- What are the major drivers behind changes in the organization's key financial metrics over the past three years?
- What are the organization's financial projections for the future, and what assumptions were used?
- Does the board have a sufficient financial understanding to review and analyze financial statements, trends and projections and identify warning signs and the potential need for a change in the organization's course?

programs or capital acquisitions should be regularly performed and reported to the board. The board should then use financial performance against budget and compared to peer groups as a tool for gauging organizational progress and effectiveness.

### Financial Basics

As a general overview, there are three basic statements that board members should review. These statements are interrelated—the Balance Sheet, Statement of Operations and the Statement of Cash Flows—and should be reviewed together rather than on a stand-alone basis. Problems that might be masked by looking at one or two statements become easier to identify when examining all three together.

#### The Balance Sheet

The balance sheet lists the assets, liabilities, and equity of the organization. It also classifies those assets which are expected to be turned into cash within one year

### Actions Boards Can Take to Ensure Strong Financial Leadership

- Ensure that annual operating and capital budgets are developed and approved, and that rolling 3-5 year financial forecasts are produced
- Identify, review and approve targets for debt, liquidity, ROI, profitability, and other important measures of financial and operational performance needed by the board to monitor organizational performance and make timely, informed decisions
- Ensure that key financial ratios are monitored at least quarterly, and that financial and operational implications and corrective measures are developed by management, when appropriate
- Develop a reporting style that is easy to understand, highlights major trends, and stimulates creative discussion
- Exercise broad authority to protect the limited resources both of the institution and the community
- Ensure the cost-effectiveness utilization of resources
- Lead the development of long-range and short-range financial plans, performance evaluation against the plans, and regular financial reports to the board
- Review the types and scope of services being offered
- Ensure that adequate capital is available for the organization's investment strategies
- Actively encourage philanthropic support
- Approve the budget and provide for day-to-day cash needs
- Determine fiscal policy relating to insurance coverage, discount policies and third-party reimbursement
- Determine policy on the provision of needed community services

(identified as "current assets"), and those debts which are going to be due for payment to the lender within one year (identified as "current liabilities").

### The Statement of Operations

The statement of operations (or "income statement") identifies the sources and amounts of revenue after they have been adjusted for contractual allowances, as well as the operational and non-operational expenses of the organization. It provides the reader with the "bottom line" of the organization, from both an operating and non-operating basis.

### The Statement of Cash Flows

The statement of cash flows is, without a doubt, the statement that provides the most confusion in financial statement analysis. This is unfortunate since it can, in

certain circumstances, be the most important statement reviewed. The statement of cash flows identifies the sources and uses of cash. It attempts to explain to the reader where the cash is coming from and what it is being used for.

What is your organization's cash balance? What is that cash being used for? Is there a declining balance? Are large payments due to be paid on debt, which will reduce the amount of cash further, and which will strain the organization? How can you find the answers to these questions?

These questions can be answered by looking at the statement of cash flows and the balance sheet. The balance sheet lists the cash balance as the first item. On comparative statements (statements with balance information from prior periods listed for comparative purposes next to the current information), you can see if the cash has increased or decreased since that time. But the most important question to ask is what is causing the

cash balance to go up or down. This can be answered by reviewing the statement of cash flows. This statement tells the reader where the cash is coming from and where it is going. For instance:

- If the source of the increase or decrease in cash is from the operations of the organization, then there will be an increase or decrease in the line “Net increase (decrease) in cash from operating activities”.
- If the source of the increase or decrease is from purchases or sales of fixed assets or from purchases or sales of investments of the organization, there will be an increase or decrease in the line “Net increase (decrease) in cash from investing activities”.
- If the source of the increase or decrease in cash is from incurring debt or repayment of debt, or from equity-related activities, then there will be an increase or decrease in the line “Net increase (decrease) in cash from financing activities”.

The question to ask is, “why is our cash balance increasing or decreasing?” Just because a hospital or health system has more or less cash than it had in the prior month is not necessarily a cause for alarm. The reasons are many and varied, good and bad. Did the organization refinance or incur new debt? Did it make a large debt payment? Are operations using cash or providing cash to the organization? Were fixed assets or property purchased?

Another question to ask related to cash is, “what is our cash balance anticipated to be in the future?” Do we have any large debt payments or other obligations that we are going to be required to pay in the near future? This can be answered by looking at the balance sheet and seeing if the current liabilities are large or if they have increased over the prior comparative balances.

### Accounts Receivable and Revenue

Most of the revenue derived from patients is received based upon contractual arrangements with payers. A health care entity (e.g. hospital) records revenue for the

services at a standard amount, called the Gross Revenue amount, and then adjusts this amount down through a Contractual Allowance or Adjustment to record the actual amount which it will receive. The corresponding accounts receivable for the balance due is based upon the adjusted or Net Revenue amount.

### Investments

Investments by the organization are a critical area to monitor. When the organization invests in an affiliated or unaffiliated entity, such as a medical office building or a partnership with a medical imaging organization, the income and losses of those investments need to be recorded by the investing organization.

Those persons responsible for oversight of the organization need to be aware of the results of operations of these investments and management’s level of responsibility in the investment. Is your organization responsible for debt of the investee organization if the investment becomes insolvent? Ask management for details of all material investments. Ask if the organization is liable for losses. Ask if all losses are being recorded properly.

### Liabilities

Management is required to record a liability when they become aware of the liability, and when the amount of the liability can be determined. Management is given some leeway in estimating the amount of liability to record, based upon their judgment of the likelihood of occurrence of the event or the degree to which changes in the amount due could change over time.

Increases in accounts payable on the balance sheet should be understood by those responsible for oversight. An understanding of why there have been increases is necessary for proper governance. Is management holding back payment to increase cash balances? Has the aging of accounts payable increased and are large repayments going to be required in the near future?

### Current and Long Term Debt

Current and long term debt is a very important area to understand and monitor. Increases in debt without increases in investments or fixed assets could signal borrowings being used for operational purposes. Understanding the dates that the debt facilities are due to be paid off is critical for cash management. Shortfalls in cash balances should be forecasted by management and discussed. Are bond repayments anticipated in the cash flow model of the organization? Could existing debt be refinanced to obtain better interest rates and repayment terms? A review of the statement of cash flows will reveal how much cash is being paid out for principal repayment, as well as the amount of new debt which has been incurred by the organization during the period.

### Understanding Financial and Operating Ratios

Deconstructing the organization's financial statements into a number of financial and operating ratios enables trustees to better analyze financial performance. In addition, it enables the board to benchmark the hospital or health system's performance compared with a variety of peer groups (other organizations with similar revenues, geographic locale, highest performance, etc.). A good starting point in using the ratios is to graph a 3-5 five year historical trend line for each. Below is a list of ratios, what they measure, and the implications of each.<sup>1</sup>

#### Profitability Ratios

**Total Margin.** Total margin is the excess of revenues over expenses divided by total revenues, net of allowances and uncollectables. It reflects profits from both operations and non-operations. Hospitals in the high-performance group realize significant improvements in their total margins. Improving total margins are a reflection of success in cost management efforts.

**Implications:** An uptrend is considered positive.

**Free Operating Cash Flow to Revenue.** Free operating cash flow to revenue is cash flow from operations less capital expenditures, divided by revenue. Free operating

cash flow to revenue is a measure of profit often used in valuations because it better reflects the available cash return. A value less than zero most likely indicates an operating loss. The primary strategy for correcting a low free operating cash flow situation is tight cost management. **Implications:** An uptrend is considered positive.

**Free Operating Cash Flow to Assets.** Free operating cash flow to assets is defined as cash flow from operations less capital expenditures, divided by assets. A value less than zero most likely indicates an operating loss. The primary strategy for correcting a low free operating cash flow situation is tight cost management. **Implications:** An uptrend is considered positive. A free operating cash to asset less than zero most likely indicates an operating loss.

**Return on Equity.** Return on equity is the amount of net income earned per dollar of net assets or equity. High values for return on equity indicate an entities ability to add new investment in plant, property and equipment without adding excessive levels of new debt. Return on equity values are significantly lower in smaller organizations. **Implications:** An uptrend is considered positive.

#### Liquidity Ratios

**Current Ratio.** Current Ratio is the number of dollars held in current assets per dollar of current liabilities. It is the most widely-used measure of liquidity. More profitable hospitals are likely to have higher current ratio values. **Implications:** An uptrend in this area is positive.

**Days in Patient Accounts Receivable.** Days in patient accounts receivable is the average time that receivables are outstanding or the average collection period. Higher collection periods lead to greater AR short-term financing requirements. High-Performance hospitals maintain lower days in AR, which leads to better overall asset efficiency and return on total assets. Reductions in days in patient AR translates into higher values of cash and investments. **Implications:** A downtrend in this area is positive. Reductions in accounts receivable reflect improved hospital management in the receivables area. High performance hospitals routinely and aggressively focus on collecting cash as quickly as possible.

**Average Payment Period.** Average payment period is a measure of the average time that elapses before current liabilities are paid. High values may indicate potential liquidity problems. **Implications:** *A downtrend is considered positive.*

**Days Cash on Hand.** Days cash on hand, all sources measures the number of days of average cash expenses that the hospital maintains in cash and marketable securities. It is a measure of total liquidity, both short-term and long-term. **Implications:** *An uptrend is considered positive. High-performance health care organization's have higher days cash on hand from all sources than low-performance organizations. Low-performance hospitals may face major liquidity problems. High-performance hospitals and health systems maintain needed, but not excessive, cash positions.*

### Capital Structure Ratios

**Equity Financing Ratio.** Equity financing ratio measures the percentage of total assets financed with equity. High values imply that the hospital has used little debt financing in its asset acquisition and has relatively low financial leverage. **Implications:** *An uptrend is considered positive.*

**Long Term Debt to Capitalization.** Long-term debt to capitalization is the proportion of long-term debt divided by long-term debt plus net assets or equity. Higher values imply a greater reliance on debt financing, and may imply a reduced ability to carry additional debt. High-Performance hospitals rely less on debt and more on equity. Higher bond ratings are usually associated with lower long-term debt-to-capitalization values. **Implications:** *A downtrend is considered positive.*

**Cash Flow to Total Debt.** Cash flow to total debt is the percentage of cash flow to total liabilities, current and long-term. It is an important indicator of future financial problems. High-performance hospitals show an increasing trend in cash flow to total debt. **Implications:** *An uptrend is considered positive. Low-performance hospitals have a dangerous declining trend in Cash Flow to Total Debt.*

**Debt Service Coverage.** Debt Service Coverage measures total debt service coverage (interest plus principal) from the hospital's cash flow. Higher values for debt service coverage indicate better debt repayment ability. **Implications:** *An uptrend is considered positive.*

**Cushion Ratio.** The cushion ratio measures the relationship between total debt service, both interest and principal, and total cash reserves, both current and non-current. A high value means that the hospital is less likely to default on debt service payments because it has the cash reserves to meet its expected obligations. **Implications:** *High-performance hospitals have higher cushion ratios than low-performance hospitals.*

### Asset Efficiency Ratios

**Total Asset Turnover.** Total asset turnover provides an index of the number of operating revenue dollars generated per dollar of asset investment. Higher values for this ratio imply greater generation of revenue from the existing investment in assets. **Implications:** *High-performance hospitals have lower total asset turnover ratios than low-performance hospitals.*

**Fixed Asset Turnover.** Fixed asset turnover measures the number of operating revenue dollars generated per dollar of fixed asset investment. High values imply good generation of revenues from the existing fixed asset base and are a positive indicator of operating efficiency. Rural hospitals have higher fixed asset turnover values than urban hospitals due to older plants in the rural sector and less investment in capital-related assets. **Implications:** *An uptrend is considered positive. Fixed asset turnover is a good measure of hospital utilization.*

**Current Asset Turnover.** Current asset turnover measures the number of revenue dollars generated per dollar of investment in current assets. Higher values imply a greater efficiency in the employment of current assets than do lower values. Higher investments in cash and accounts receivable will reduce current asset turnover. High-performance hospitals have lower investments in patient accounts receivable, and therefore more cash. **Implications:** *Increasing values are desirable.*

## Other Financial Ratios

**Average Age of Plant.** Average age of plant provides a measure of the average age in years of the hospital's fixed assets. Lower values indicate a newer fixed asset base and, thus, less need for near-term replacement. Average age of plant may also be indirectly associated with the quality of care provided. **Implications:** *Higher values for Average age of plant are negatively correlated with most measures of debt financing. High-performance hospitals have significantly newer plants than low-performance hospitals.*

**Depreciation Rate.** Depreciation rate provides a measure of the rate at which the organization is depreciating its physical assets. Increases in this rate often imply that newer assets are being added to the organization's depreciable asset base. Larger hospitals have a higher depreciation rate than smaller hospitals. This is an indication that greater capital expenditures have taken place in larger hospitals and also that they have newer physical facilities. Rural hospitals have lower depreciation rates than urban hospitals. Less capital is being expended in the rural hospital sector.

**Implications:** *Hospitals that curtail capital expenditures will see the average age of their physical facilities rise and their depreciation rates fall. Depreciation rates for high-performance hospitals have been stable over the past five years, while they have decreased for low-performance hospitals.*

**Capital Expenditure Growth Rate.** The Capital expenditure growth rate is defined as the percentage of the organization's total gross property, plant and equipment that was added in a given year. This percentage will vary greatly over time as capital expenditures fluctuate. Higher values for this indicator imply an active capital expenditure program of additions and replacements. Rural hospitals have lower capital expenditure growth rate values than urban hospitals due to less intense use of newer technology. **Implications:** *Financial inability to fund capital expenditures in low-performance hospitals. Further declines will result in even older physical facilities and the absence of state-of-the-art technology. This may further compound the problems of low-performance hospitals by driving away needed customers, especially physicians.*

## Price Indicators

**Gross Price Per Discharge.** Gross price per discharge measures the average charge per unadjusted discharge. Gross price per discharge (adjusted for case mix & wage index) adjusts for differences in case mix complexity and differences in prices that may be a result of cost of living differences among regions. Rural hospitals have gross price per discharge values that are lower than those of urban hospitals on both an adjusted and unadjusted basis. However, when hospitals are categorized by size, rural hospitals and urban hospitals have similar prices. **Implications:** *High-performance hospitals have historically had higher gross prices than low-performance hospitals. High-performance hospitals maintain higher net prices than low-performance hospitals.*

## Volume Indicators

**Average Daily Census.** Average daily census provides a measure of inpatient volume. Average daily census is a function of both discharges and length of stay. Increases in average daily census should ideally come from increases in discharges rather than from increases in length of stay. Urban hospitals have much higher values for average daily census than rural hospitals due to the larger number of beds and greater lengths of stays. **Implications:** *Average daily census is expected to decline as the focus of care continues to shift to outpatient facilities.*

**Occupancy Percentage.** Occupancy percentage provides a measure of facility utilization based on licensed beds. The use of beds to measure capacity does not reflect the substantial amount of hospital capacity that is not involved with inpatient care. **Implications:** *Occupancy is higher in high-performance hospitals. It is not a filled bed which generates revenue, but rather a new admission. High-performance hospitals have much higher discharges per bed than low-performance hospitals.*

**Occupancy for Staffed Beds.** Occupancy for staffed beds provides a measure of facility utilization based on staffed beds. **Implications:** *High-performance hospitals have lower values for occupancy for staffed beds than low-performance hospitals. This may indicate that low-performance hospitals have plants that are less utilized, but they are more willing to designate beds as not staffed.*

### Length of Stay Indicators

**Length of Stay.** Length of stay measures the average time an inpatient spends in the hospital. In today's environment of fixed payment per case, a reduction in length of stay is usually desirable. The reduction in length of stay is a reflection of cooperative relationships between hospitals and physicians. **Implications:** *High-performance hospitals have been able to achieve slightly lower values for length of stay than low-performance hospitals.*

### Efficiency Indicators

**FTEs Per Adjusted Occupied Bed.** FTEs per adjusted occupied bed is a traditional measure of inpatient productivity. As Length of Stay declines, the amount of service per day increases because a significant amount of hospital service is front-loaded. **Implications:** *Controlling FTEs per occupied bed is an important element of total labor productivity. Control over total case cost is the primary objective. High-performance hospitals have reported lower values for FTEs per adjusted occupied bed than low-performance hospitals.*

**Total Revenue Per FTE.** Total revenue per FTE is defined as total revenue, (or net patient revenue plus other operating and non-operating revenue), divided by

the number of FTEs. Total revenue per FTE is a useful measure of productivity in an increasingly diversified industry. **Implications:** *High-performance hospitals have higher values for total revenue per FTE than low-performance hospitals, and the gap appears to be widening. The ultimate measure of productivity is value created per FTE.*

### Focus on the Financial Future

Trustees must pay close attention to the financial implications of current issues and trends on their hospitals and health systems. Moody's Investment Services, Standard & Poor's Financial Services LLC and Fitch Ratings are the "Big Three" ratings agencies. They closely monitor the financial performance of hospitals and health systems frequently issuing financial analyses and projections for the health care field. Hospital and health system boards should be vigilant to the concerns cited by financial experts, engaging in the oversight, discussions, and actions necessary to ensure the hospital's or health system's financial stability and sustainability.

### Sources and Additional Information

1. Almanac of Hospital Financial and Operating Indicators. Optum. 2018. The Almanac of Hospital Financial & Operating Indicators provides a comprehensive analysis of the financial and operating performance of U.S. hospitals and five-year trend information on more than 70 important financial measures.
2. Flex Monitoring Team Data Summary Report No. 29: CAH Financial Indicators Report: Summary of Indicator Medians by State, 2019.

# Q: What does it mean to be an effective advocate for your hospital?

Trustees often become so consumed with organizational issues and challenges that they lose sight of the need to consistently and forcefully connect in meaningful ways with their communities. With growing scrutiny of the health care field in general, and of the “community benefit” provided by hospitals specifically, hospital boards have a unique opportunity to ensure that their organizations consistently engage in meaningful ways with a broad range of community stakeholders.

**H**ospitals contribute in many significant ways to their communities, both clinically and non-clinically. As a trustee, do you know all the ways your hospital contributes to the community? Does the board support those activities, seek out additional opportunities to impact the community, and understand and communicate the results and impact the hospital has?

For some boards, the first step may be as simple as identifying or re-defining the hospital’s commitment to the community. Next, the board needs to understand what is already being done, what can be done and what more should be done. Finally, and very importantly, the hospital should communicate to key stakeholders and the general public what it is doing to benefit the community. Trustees have an opportunity and an obligation to impact the negative-to-positive ratio of stories and statistics about health care heard by federal and state legislators, the media, and individuals in their own communities.

## The Need for Trustee Leadership and Involvement

Hospital trustees are trusted leaders in their communities. They also have a unique and powerful role as key communicators of the benefit provided by their hospital. Because they are volunteers, they are seen as

unbiased, impartial protectors and stewards of the hospital’s cherished mission, values and vision. This role is commonly referred to as “advocacy,” and is a key part of trustees’ responsibilities.

Despite its critical importance, the advocacy component of trustees’ jobs isn’t always prominently discussed. Advocacy is an opportunity to bring valuable information to elected officials that they otherwise would not have. Trustees can offer:<sup>1</sup>

- A respected independent voice in the community and with legislators, in part because they are not paid to lobby and have no economic stake in the outcome.
- Practical, “real life” perspectives into the challenges facing hospitals, patients and their communities.
- First-hand examples of how potential legislation and regulations will impact the hospitals and the communities they serve.

## Leveraging Trustee Impact

Trustees provide a fresh perspective to supplement the efforts of hospital CEOs, hospital associations and other membership organizations that conduct advocacy efforts on behalf of the hospital. Every hospital should look for

ways to maximize trustees' credibility in ways that the hospital staff cannot do alone.

#### **Communicate the Impact of Potential Decisions.**

Trustees can help communicate the impact of budget cuts and other potential legislation on their hospitals and communities in personal ways, such as the impact on patient care on an individual, personalized level, or the impact on the hospital's workforce or the local economy.

#### **Talk about Community Benefit, Don't Just Ask for More Reimbursement.**

As past investigations and lawsuits have demonstrated, some lawmakers are skeptical about hospitals' true "financial needs" and whether they are deserving of their tax-exempt status. Lawmakers are increasingly interested in the amount of charity care hospitals provide, the community benefits they offer, and the ways in which they handle patient billing and collections. Trustees need to communicate a deeper message about what's right about health care and opportunities to do even more, rather than simply focusing on needing more money.

**Look for Opportunities to Tell Stories.** People tend to take for granted the great work that hospitals do, and they need to be reminded. Lawmakers, key stakeholders, and the general public need to hear stories about what their local hospitals are doing to save patient lives, improve individuals' quality of life, contribute to new research and development, and make a difference in the health of their communities. Without hospitals taking the initiative to ensure these stories are heard, the public may only hear the more negative stories about hospitals and health care that tend to dominate the news and personal conversations.

**Be Engaged.** Boards need to be engaged and knowledgeable about their hospital's community benefit activities and charity care so they can effectively communicate it with legislators and key stakeholders. The more trustees are engaged, the more they will be able to communicate their hospital's story on a personal level.

### Trustee Advocacy Provides Stability

Successful advocacy is highly dependent on relationships. It involves building ongoing relationships that include regular interactions and communications, not

### Trustee Roles in Advocacy

- **Advocate:** Taking the hospital's message to legislators through lobbying or delivering testimony at hearings, representing the community's interests in board decision-making.
- **Educator:** Speaking on issues facing the hospital at schools or civic groups; appearing on local television or radio shows to discuss health care, and highlighting what the organization is doing to contribute to the community's health well-being.
- **Conduit:** Participating in public forums to discuss issues facing the hospital, share what the hospital is doing in the community, and learn about community opinions or health care needs.
- **Ambassador:** Representing the hospital at important community social gatherings.
- **Host:** Presiding over visits of legislators, senior citizens, or key business leaders to the hospital to help them learn about available services and to hear about their interests or needs.

just seeking out a lawmaker or community representative when the hospital wants something. When forming deep and long-term relationships in the community, an experienced trustee with a personal interest in the community is the best voice to form lasting partnerships that can benefit the hospital.

As trustees work to form long-term relationships, they should look for opportunities with politicians at every level - city, county, state and federal. In many cases, forming relationships with a lawmaker's legislative staff can be just as important as forming relationships with lawmakers directly, since most rely on their staffs to provide them with research, information and perspective on issues.

One way to form relationships with state and federal legislators is to take advantage of opportunities that already exist. When possible, seek out legislators or their staff members at social gatherings or civic meetings to begin forming relationships. Host legislator visits to your hospital and take them into the community to see the community benefit work you're doing outside the hospital.

Many state hospital associations often hold advocacy days and offer support for trustees who want to visit their state capitals to meet with legislators and key decision-makers. In addition, the American Hospital Association organizes trips to Capitol Hill during their annual meeting every spring.

### Grassroots Advocacy: Using Community Connections to Build Community Health and Strengthen Public Trust

Successful advocacy is about more than establishing relationships with legislators. One of the most important roles of the board is to maintain strong and vibrant community relationships that build community understanding and loyalty to the hospital. Trustees play a vital role in securing strong public perceptions of the hospital and raising its profile as a premier community financial, health care and social services asset.

As a part of hospitals' grassroots advocacy efforts, every community has a broad range of key constituencies or stakeholders who should be communicated with and influenced by the hospital. The hospital board is the ideal conduit between the hospital and these community groups, including:

- Community spokespersons or health advocates
- Purchasers of health care
- Insurers and other payers
- Patients and families
- Legislative and regulatory bodies
- The news media
- Civic groups, agencies and organizations
- Religious leaders
- Business owners
- Educational institutions

This type of grassroots networking is an opportunity to leverage already existing relationships. For example, trustees can educate the community through one-on-one

### Rules for Building Sustainable Community Partnerships

**Rule 1:** It's not an event or a one-time fix, but a continuous commitment to community.

**Rule 2:** Lasting partnerships cannot be created overnight, and must be sustained over time.

**Rule 3:** Don't reinvent the wheel; learn from and use the success of others.

**Rule 4:** Cultivate broad-based buy-in and commitment from all stakeholders.

**Rule 5:** Communicate, communicate, and then communicate some more.

conversations and presentations before local organizations. These relationships provide opportunities for:

- Communicating what the hospital is doing well,
- Sharing the challenges the hospital faces, and
- Asking about challenges community organizations face, and looking for synergies and potential partnerships opportunities.

### Avenues for Building Community Centeredness

In addition to building and sustaining partnerships, there are a variety of avenues by which hospital trustees and leaders can gain a greater understanding of the community's health care needs and challenges, increase awareness of existing programs, seek feedback and ideas for new initiatives, and build trust and promote the hospital's image. These include:

- Community surveys
- Focus groups with key stakeholders
- Task forces with hospital leaders, employees and key stakeholders
- Conducting a community needs assessment

### Trustee Advocacy: Three Critical Areas

#### Strategy

- Understand how the policy environment could impact the hospital or health system's work.
- Build strategies that seize public policy opportunities and address public policy threats.
- Leverage advocacy as a way to "get things done."

#### Budget and Resources

- Understand your hospital's budget and any public funds that may be vulnerable if public policy shifts.
- Prioritize resources to support strategic engagement in advocacy.

#### Personal Engagement

- Leverage your influence and networks in support of the hospital's advocacy efforts by making calls, setting up meetings, etc.
- Attend meetings with decision makers and law makers together with hospital staff.
- Participate in group advocacy efforts, such as lobby days or congressional hearings.

Source: Stand for Your Mission—Advocacy. BoardSource. Accessed March 2021. <https://standforyourmission.org/advocacy-your-board>.

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- Presentations to community groups
- Interviews with patients, key stakeholders, and the people in the community at-large

The "bottom line" value of being a community-centered organization is that the community will better understand the good work the hospital is doing, challenges the hospital is facing, the hospital's efforts to address the

challenges, and the barriers to success. The hospital must connect with stakeholders and key constituents in ways that can be leveraged to more successfully advance the hospital's agenda. The benefits that result from the hospital's community benefit initiatives must be defined, reported and discussed throughout the community to build a sense of the hospital's health care and economic value.

### Sources and Additional Information

1. Stern, Andrew. The Trustee's Role in Advocacy: Telling Your Hospital's Story. American Hospital Association. October 2017. <https://trustees.aha.org>.
2. Stand for Your Mission—Advocacy. BoardSource. Accessed March 2021. <https://standforyourmission.org/advocacy-your-board>.

# Q: How does the board ensure successful leadership for tomorrow?

High performance governance in today's environment is critical. Every board member must clearly understand and be capable of carrying out his or her responsibilities at the highest level of governance performance. Recruiting new trustees to serve on your board is every bit as important as CEO recruitment. How well boards plan and execute this vital process defines the hospital or health system's leadership success for years to come.

**T**he importance of governance succession planning is growing as health care organizations and their governing boards face increased pressure for high performance, transparency and accountability in a field undergoing significant change.

Boards should be composed of individuals who display a diversity of opinions and independent thought and actions. Trustees should have demonstrated achievement in their career field and possess the intelligence, education, and experience to make significant contributions to governance. They should also possess the personal attributes that will contribute to sound working relationships with other board members and the executive staff. Instead of a board composition that is simply representational, boards of trustees should seek to develop a composition that also reflects the overarching experience and expertise needed to successfully govern in today's era of transformation.

Boards of trustees should be asking themselves: "When current trustees' terms end, who will replace them? Where will we find highly qualified board members who are "experts" in the areas of governance in which we need the most help, who are free of potential conflicts of interest, and who are able to meet the required time and energy commitment?"

***Governance succession planning is the key to not only filling an empty seat on the board, but to strengthening board and organizational performance.*** By regularly assessing the board's leadership strengths and weaknesses, and using the hospital's strategic plan to define critical future leadership requirements, a board can identify governance "gaps" that can be closed through targeted trustee recruitment.

A trustee succession plan should be developed to recruit trustees that meet the specific governance needs. These "gaps" will be different for each board and organization; while one board may need increased diversity another may seek greater clinical expertise or an improved balance between visionary, "big picture" thinkers and more practical, shorter-term thinkers.

## Increased Trustee Demands

Boards of health care organizations govern highly complex organizations. The nature of hospitals requires trustees to engage in ongoing education, time-consuming individual preparation for board and committee meetings, and attendance at trustee conferences and other educational and governance development events.

Research indicates that the average board member spends over 200 hours on board related matters every year. For “high impact” boards addressing more complex issues, the typical time commitment is even higher.<sup>1</sup> Experts predict the time commitment is the equivalent of 20-40 additional work days per year, depending on the complexity of the board.<sup>1</sup> Many hospitals are challenged to find trustees who not only meet specific board leadership requirements, but who are also willing to commit the significant amount of time necessary to fulfill their growing responsibilities and accountabilities.

### Recruiting the Right Trustees

Properly identifying, assessing and successfully recruiting a new trustee involves several steps. Boards should begin by conducting a comprehensive governance self-assessment to determine where they may have potential leadership “gaps,” either now or in the future. After identifying specific characteristics and skills sets desired, the board should seek out and talk with a variety of candidates who may meet their board service requirements. Once a new trustee is selected, orientation and ongoing education is critical to ensuring trustee success in providing strong and effective leadership to the hospital on behalf of the community.

**Identifying Leadership Gaps.** In order to gauge leadership strengths and weaknesses, boards of trustees should conduct an annual board self-assessment. A comprehensive, meaningful self-assessment includes ratings of leadership performance in a broad range of areas. Each area should include several positively worded statements about the board's performance; trustees should rate the board's performance in each statement, and each broad area should be followed with one simple question: “How can the board improve its performance in this area”? The assessment should also include a section in which trustees evaluate their personal performance in several areas of leadership effectiveness.

Once board strengths and weaknesses, leadership challenges and future leadership needs have been identified, the board can then develop a list of specific skills, attributes and characteristics that are important for new trustees to possess. The specifications should complement existing board members' skills and

competencies, and assist the organization in furthering its ability to provide high-powered, thoughtful, diligent leadership.

In essence, instead of simply accepting any person who expresses an interest in serving on the board, or persuading a reluctant potential trustee to serve, the board should recruit trustees with the skills and personal characteristics that complement existing board members' resources and which results in a more well-rounded, competency-based board.

**Instead of simply accepting any person who expresses an interest in serving on the board, or persuading a reluctant potential trustee to serve, the board should recruit trustees with the skills and personal characteristics that complement existing board members' resources and which results in a more well-rounded, competency-based board.**

**Governance Accountability for Cultural Competency.** As a part of the board's accountability for mission fulfillment and leadership, trustees are being called upon to address their community's health care disparities and strengthen hospitals' and health systems' cultural competencies. A diverse board membership that reflects the community's diversity offers the board the benefit of first-hand insights, understanding and information that can contribute to the board's ability to appropriately recognize and take actions to address the health care needs, disparities and inequities of the entire community.

**Essential Skills, Experience and Knowledge.** Boards of trustees can successfully recruit new trustees that meet their governance needs by selecting individuals with the right skills, experience and knowledge. Critical characteristics most often sought by hospital boards include:

- **Motivated, committed and passionate in serving the hospital and community.** Board members must be willing to commit to the time required to serve on the board and be active in fulfilling the hospital's mission and vision.

### Skills and Experience Matrix

Developing a governance skills and experience matrix is helpful to identify the expertise most important to the board, and any gaps that may exist now or in the future as board members leave. Typical items in this matrix include:

#### Governance Experience

- Service on Corporate Board(s)
- Service on Not-For-Profit Board(s)

#### Professional Skills and Experience

- Accounting/Finance
- Investment Planning
- Fundraising
- Management of Complex Organizations
- Change Management/Transformational Change
- Marketing/Public Relations
- Strategic Planning
- Public Speaking/Presentations
- Facilities Planning, Capital Planning and Acquisition
- Executive Performance Evaluation and Compensation
- Legal
- Measuring and Improving Customer Satisfaction
- Medical
- Government
- Research Analysis

#### Health Care Knowledge and Expertise

- Industry Trends
- Medical and Information Technology
- Workforce Planning
- Laws and Regulations

#### Market Knowledge and Experience

- Community Relationships
- Community Leadership
- Community Trends and Issues

- **Ethical, respected and held in high esteem by the community.** Health care organizations will increasingly need to partner with both other health care providers as well as organizations that have an interest and stake in the community's health (such as police or fire departments, local business groups, religious organizations, public health agencies and others). Board members must be actively involved in gaining and sustaining the trust of the community and forming strong community partnerships to ensure the hospital's success.
- **Strategic, innovative and visionary thinker.** Boards of trustees must understand that there is no single future that can be planned for and successfully executed. Board members will need to be flexible, dynamic governance decision-makers who are not surprised as the future unfolds. They must continually challenge the status quo, and encourage innovation, risk taking and new ways of embracing the opportunities of the future. They must push for change, value creativity and innovation, and leverage change for strategic advantage.
- **Advocate.** Trustees are the voice of the community. They can and must use their clout and credibility to be strong and powerful influencers of lawmakers, regulators, community groups and others who influence or make decisions that affect the future of their organizations. Trustees need to be continually aware of political issues and legislative processes, and able to establish relationships with their state and national legislators and their health policy staffs. Advocacy success requires individuals with deep health care knowledge and literacy.
- **High intellect and willingness to learn.** Board members must develop a high level of understanding in the areas most critical to organizational success and performance. Decisions must be guided by the organization's mission, vision, values and strategic initiatives, and be based on facts that focus on priorities vital to the organization's success. Board members must be highly attuned and adaptable to change, requiring them to be proactive thinkers. They must also commit to and engage in continual governance education.

### Key Steps in the Trustee Recruitment Process

The following steps are recommended for recruitment of trustees to serve on community hospital boards. The philosophy and process may be similar for governmental hospitals whose trustees are appointed, however the process is only a recommendation to the officials who will make the appointment.

1. **Secure board agreement** on a long-term succession plan and process: Purpose, participants and objectives
2. **Appoint a board development committee** to oversee the recruitment process
3. **Develop appropriate background material on the hospital and board of trustees:** Bylaws, board member biographies, information about the hospital, its market and its challenges, information on trustees and officers liability insurance, conflict of interest statement, board self-assessment process, board orientation process, etc.
4. **Develop a trustee candidate overview and application** (includes board job description, trustee qualifications, and candidate application), and a letter to be sent to prospective trustees indicating the hospital's interest in discussing potential trusteeship opportunities
5. **Develop a summary of candidate qualifications and a candidate profile**, and a candidate assessment form to use as a tool in evaluating potential trustees. The assessment should be based on the criteria included in the candidate profile and job description. Consider assigning a "weight" to each criteria that reflects the relative importance of the criterion (e.g. 5 = greatest weight, 1 = least weight), and include specific questions to ask candidates to determine motivation and willingness to serve, ability to devote time required, knowledge of issues, conflict of interest, etc.
6. **Secure board approval** of the board development committee's recruitment process and recruitment materials
7. **Identify potential field of candidates**
8. **Make preliminary contact** with potential candidates and assess initial candidate interest and willingness to serve, if chosen
9. **Review candidates and arrange interviews** with members of the board development committee
10. **Evaluate candidates using the candidate assessment tool**, and prepare a brief written summary of each candidate (occupation, length of residency, community involvement, answers to questions, etc.)
11. **Determine top-rated candidates**, and present to the board development committee
12. **Board development committee makes recommendation** to full board
13. **Nomination** of candidate(s)
14. **Send follow-up communication to candidates not selected**, and determine other ways for candidates not selected to be involved, such as serving on the foundation board, on task forces, etc. Assess interest in filling future vacancies

## Critical Questions Every Hospital Board Needs to be Able to Answer

Planning Today for Tomorrow's Trustee Leaders

- **Collaborative, artful listener, and willing to engage and ask hard questions.**

Miscommunication and misjudgment often are a result of inadequate listening, not from a lack of words. Strong and effective governance communication will require board members who are willing to listen attentively without rushing to judgment, and absorb information before offering a definitive response. Board members must also be able to engage in critical conversations to ensure that decisions are made by grappling and grasping with concepts, ideas and practical solutions, leading

to more informed and rational conclusions. They should also be willing to regularly confront issues by challenging assumptions and exploring alternatives to traditional thinking.

- **Ability to grasp implications of financial statements.**

One of the principal jobs of the board of trustees is to oversee the financial performance and progress of the hospital. The board must have individuals with professional experience and expertise in accounting and/or finance. A successful trustee with skills in this area brings professional expertise to financial discussions and decisions.

### Sample Trustee Candidate Profile

A one-page candidate profile should be developed to clearly describe the responsibilities, success factors and skills and assets the hospital seeks in a new trustee. The profile should begin with a one-two paragraph overview of the hospital, followed by specifics about the trustee role.

**Major Responsibilities.** Anytown Community Hospital (ACH) trustees are responsible for overseeing the progress and success of ACH. The board of trustees must ensure that the organization achieves its mission, vision and values. The board also leads the hospital's strategic direction, development of ACH's strategic plan, evaluation of the plan's implementation, and oversight of plan progress and achievement, taking corrective action when necessary. Anytown Community Hospital's board of trustees is responsible for hiring the CEO, conducting CEO performance evaluations and determining the CEO's compensation. The board of trustees assumes ultimate responsibility for the quality of care and patient safety provided by the hospital, and is accountable for the financial soundness and success of ACH.

**Success Factors.** The successful trustee will have strong interpersonal skills, and will be comfortable with interacting with other board members, the CEO, medical staff leaders and the hospital's executive team. The trustee must be willing to commit the time necessary for successful board service, and have a willingness and a desire to learn and understand the complexities of the health care environment and the challenges of meeting Anytown Community Hospital's patient and community needs. The ability to constructively challenge the status quo, understand and evaluate financial information and collaborate with a broad range of diverse stakeholder groups is key to the success of the trustee. The trustee should understand and follow the fiduciary requirements to the organization and not serve any individual constituency or group.

**Personal Skills and Assets.** The successful trustee will build positive relationships with other board members, the hospital's executive team, medical staff leaders and the organization's other key stakeholders. Adaptability, flexibility, organization, initiative, leadership and analytical skills are key qualities which will enable the trustee to be successful as an Anytown Community Hospital trustee. Other important personal assets include sound, independent judgments and decisions; the ability to analyze complex issues and develop effective solutions; and the ability to create a vision for the future, given the many uncertainties prevalent in today's health care environment. The trustee should have a basic general understanding of the health care field, be committed to preparing for active insightful involvement in board and committee meetings, and be able to read, understand, and apply industry information and financial acumen to strategic decisions. Strong communication skills are essential. The trustee should be deeply committed to the hospital and the community it serves, and have no unresolvable conflicts of interest with Anytown Community Hospital's operations or key stakeholders. When conflicts of interest do arise, the trustee must be willing to abstain from discussions and votes surrounding the issue.

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### Planning Today for Tomorrow's Trustee Leaders

- **Ability to understand and value perspectives of the medical staff and patients.** Boards of trustees are responsible for ensuring the quality of care and patient safety provided by their organization. Trustees must take strong, organized action to establish and ensure an organizational culture that continually strives to improve quality and patient safety at every turn. While community board members are not expected to be physicians, a successful board should be willing to make a commitment to developing a good understanding of medical issues that affect the organization's success.
- **Prior board experience.** Individuals with experience on other boards bring unique governance and business perspectives that broaden and enrich the organization's governance functions. Their experience will provide community contacts and new ideas for ways to lead most effectively.

**Finding Qualified Board Members.** Once specific desired skills and characteristics have been identified, the board must recruit individuals that meet these specifications. In order to ensure diversity of backgrounds, thoughts and opinions, it is important that boards don't recruit based solely on who board members know. Boards should cast a wide net as they search for potential new board members, including:

- Seeking out individuals who have a record of successful governing service on other boards, and who have the potential to bring credibility, expertise and community connections to board work
- Organizations that partner with the hospital or health system in any capacity
- Those that serve on patient advisory councils
- Asking hospital leaders and former board members for potential local leaders and stakeholders that may be interested
- Social service agencies
- Local organizations that care for specific ethnic populations, such as churches and community health clinics

- Existing hospital volunteers who serve in a leadership capacity, such as on the hospital's foundation, ad hoc committees or task forces

Boards may consider maintaining a list of potential future board candidates, including the specific skills they bring to the organization.

Throughout the recruitment process, stick to the board's pre-defined specifications for new trustees. Trustees must know and understand more, and take on greater responsibility than they have in the past, underscoring the critical work of the board and weighty nature of board responsibilities. Candidates must have the time, availability and discipline to act on their commitment to the board and the responsibilities of trusteeship. When interviewing potential trustees, do not "sugarcoat" the job; be honest about board members' roles and responsibilities and the time commitment required. The last thing a board needs is to select a new trustee who did not understand the commitment and who is then unable to fulfill his or her duties.

**Next Steps.** Once a potential trustee (or trustees) has been identified, several additional steps should be taken before extending an offer to serve on the board:

- Double-check for potential conflicts-of-interest that cannot be resolved
- Invite the prospective board member to meet with the board chair and the CEO for a detailed overview of the organization and board expectations
- Invite the prospective new member to observe a board meeting
- Follow up with the candidate after attending a meeting to discuss his or her continuing interest

### Ensuring Board Diversity

Board diversity is important for any board, but particularly for a hospital or health system serving an entire community. Boards with wide-ranging perspectives and backgrounds bring a variety of perspectives and experiences, allowing the board to reflect the diversity of the community served.

**Diversity of Gender, Ethnicity, Experience and Background.** Boards that have traditionally been homogenous may need to reevaluate their most important priorities when selecting board members. If board recruitment has focused on those with high career status or individuals with the potential to be a strong donor, women and people of color may be overlooked. Expanding the board's desired qualifications can help. For example, a candidate may not have served on a previous board but may bring first-hand experience or leadership skills from a different perspective.<sup>4</sup>

Some boards may be reticent to prioritize diversity when selecting new board members. Boards should discuss the opportunities that are missed if the composition remains homogenous. A good dialogue starter is asking "why do we need to become diverse?" When boards have an open, thoughtful discussion about the importance of diversity and how it relates directly to the hospital's mission and vision, priorities will shift.<sup>3</sup>

For many boards, engaging in cultural competency training is beneficial for both board dynamics and for strengthening understanding of the populations served. Boards can work with a facilitator or engage in board-wide education about race and institutional bias.<sup>3,4</sup>

This training may also help boards avoid "tokenism" with new board members. Every board member's perspectives and expertise should be valued equally, and all board members should be treated with the same expectations.<sup>3,4</sup>

**Generational Recruitment.** According to a recent governance survey report, only two percent of voting board members on health care boards are 35 years or younger. In fact, 66 percent of all voting board members are between the ages of 51 and 70.<sup>5</sup> Younger generations are increasingly having an impact on the health care

marketplace and consumer preferences—including seeking care in non-traditional settings, an increased demand for telehealth, greater use of medical technology, and expectations for a more collaborative and customer-focused health care experience. Welcoming millennials (born between 1981 and 1996) is the ideal way to build future board leaders and bring fresh perspective to boards.<sup>5</sup>

**Onboarding and Orientation.** Investing in governance succession planning is a critical component to creating a pipeline of well-prepared new leaders. Consider sponsoring or co-sponsoring a board training program for your community to ensure that not only the hospital's board, but also the community's other not-for-profit organizations have a growing pool of trained board candidates ready for service.

Share with participants the benefits of board service, educate them about the responsibilities of board members and highlight the need for their leadership skills. Nurture and evaluate the "board readiness" of emerging leaders by inviting them to serve on task forces or committees, and continue building their board readiness with a strong orientation program. Many new trustees arrive on the board with little or no prior board or health care expertise. A strong orientation program and warm welcome is critical to their successful service on the board.

Take orientation to the next level by linking experienced board members as mentors with new trustees. As a mentor, an experienced board member has the opportunity to offer a new trustee support, background information and insights, recap critical issues and identify subtle nuances. Mentors that successfully engage new trustees can also help prevent potential feelings of isolation that new board members might experience.

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# Q: How does the board ensure continuous growth in its critical leadership knowledge?

Health care is moving at the fastest pace in history. What trustees needed to know five years ago is no longer sufficient in today's world, where governance "knowledge capital" is one of a hospital's most valuable assets.

It's possible in hospital boardrooms today to just "get by" on what you know. However, trustees who are committed to contributing value to their organizations must prepare themselves by continuously improving their knowledge in order to deliver penetrating, insightful leadership that their communities want and deserve.

## Education vs. Knowledge and Intelligence

Governance education is a continual process, not an end result. Education is the vehicle for improved governance knowledge. The end result and benefit of governance education is greater knowledge, understanding and heightened leadership intelligence that ensures trustees are fully-prepared to engage around critical issues, and make evidence-based vs. "gut"-based decisions.

Well-planned and well-focused governance education builds the "knowledge capital" the board needs to ensure that the right decisions will be made, using meaningful information and data.

## Working with Individual Trustees to Assess and Meet Education Needs

Trustee knowledge-building must take place continuously, and through a variety of venues. Sources of information include state hospital association resources, webinars, recordings and conferences; reading and absorbing information and ideas in trade journals; reviewing reports and studies available online,

including resources from the American Hospital Association, HealthLeaders, Kaiser, Health Affairs and more; and through targeted education at every board meeting. The key to success is to develop trustee knowledge that enables governance leaders to put the bigger issues and challenges into a local market framework, identify local market implications, and lead with confidence.

A well-planned and financially well-supported effort will result in:

- Better decisions based on better knowledge and insights
- An improved capacity to be a well-informed advocate for the hospital and its community
- Increased capacity to engage in challenging and productive governance dialogue
- An ability to think beyond "conventional wisdom"

**Governance education is a continual process, not an end result.**

In order to be successful in evaluating trustee education needs and ensure a successful education process, several factors are critical, including: board dedication to and investment in knowledge building; trustee participation; clearly stated education expectations; trustee involvement; and education that is individualized and customized to trustees' unique needs.

### ***The board must invest in knowledge building, both financially and intellectually.***

The governance education process should be undertaken with a firm and defined purpose. That is, the board should define for exploration several months in advance the issues and topics that are most critical for board members to understand in order to make critical decisions.

These topics should be drawn from the forces and factors that are driving hospital success in achieving the mission, vision and strategic objectives. Knowledge-building venues and available resources for delivering the education (meetings, publications, trustees themselves, consultants, etc.) should then be determined.

A basic strategy should be set, with objectives and outcomes. Success should be evaluated periodically, and new opportunities should be incorporated into the educational development effort as changes occur in the market. Education should not be a one-time event, but should instead be an institutionalized commitment to ensuring that the governing board has the knowledge resources necessary to make strategic decisions and be a highly-effective leadership body.

***Participation should be mandatory as a condition of trusteeship, not a “suggestion.”*** Hospitals owe it to their patients, physicians and communities to ensure that governance decisions are made and directions are set as a result of vigorous scrutiny and informed intelligence. This means that every board member, not just some, must have a common level of understanding of critical issues and developments, and their implications for the hospital.

### ***Requirements for governance participation should be expressly discussed in trustee recruitment.***

Governance education requirements should not be a surprise to new trustees after they begin serving on the board. Instead, trustees should be fully informed in advance about education requirements, which should be presented as an avenue to best serve the hospital and

the community. Prospective trustees should embrace the importance of health care education in their development as a valuable leadership asset.

### ***Education planning should be directed, where possible, by trustees themselves.***

Trustees may be asked to research certain topics or issues, and present the findings, implications and possibilities to the entire board, in essence making trustees the knowledge-builders for the benefit of the entire board. This level of involvement not only brings credibility to the importance of education, but also results in deeper trustee understanding of the most critical topics.

***Education should be individualized and customized.*** Every trustee is in a different “place” in terms of his or her level of awareness and knowledge of the issues discussed and the decisions made at board

meetings. Nonetheless, every trustee has the same fiduciary obligation, and the same responsibility to be well-informed. Efforts should be made to understand the knowledge needs of each trustee, and plans should be developed for providing each individual with the information he/she needs to be active, engaged, and productive participants in the governance process.

## Governance

**education should be viewed by trustees not as a requirement, but as an opportunity to best serve the hospital and the community.**

## Designing an Effective Governance Education Process

Below is an outline of how a board of trustees may design a process that will ensure optimum development of leadership knowledge and effectiveness.

***Define the board issues*** about which every board member needs to have a common understanding in order to be a high-performance trustee. Subjects may include, but are not limited to:

- Health care payment issues
- Health care regulation
- Current trends and issues impacting the hospital or community

## Critical Questions Every Hospital Board Needs to be Able to Answer

Building the Governance “Knowledge Bank” for Better Decision Making

- Factors impacting patient access to care
- Understanding social determinants of health
- Meeting community needs and building community partnerships
- Communicating community benefit
- Workforce issues and challenges
- Quality and patient safety
- Transparency in health care
- Supporting working collaboratively with the medical staff
- The board’s role in CEO compensation and evaluation

The hospital’s current strategic plan should serve as a basis for determining the most critical board education topics and current health care trends impacting board, and ultimately, hospital success.

**Assess each individual trustee’s awareness and understanding of the issues** and situations likely to come before the board in the coming months. This may be done through a board self-assessment, a simple survey, or in causal one-on-one conversations, typically between individual trustees and the board chair and/or CEO. The individualized knowledge assessment is not a “test,” and should not be intimidating. Instead, it is a conversation to help determine the areas where pinpointed education should be focused to most quickly get trustees “up to speed” on the issues and decisions for which they are fully responsible.

**Assign an experienced board colleague** to work closely as a “mentor” with newer trustees to help them understand issues, questions, nuances, etc.

**Develop a 12-month or longer “curriculum”** of topics that are essential to effective governance, and determine

### The Governance Education Process

- Define the issues all board members must understand
- Assess each individual trustee’s education needs
- Assign board mentors to newer trustees
- Develop a 12-month curriculum
- Leverage improved trustee knowledge for dialogue and decision-making, advocacy, and trustee involvement
- Continuously refine and improve the process

the most appropriate resources to assess or deliver the information. Ensure that trustees are actively involved in the selection of topics, and that the methodology for presenting the information is conducive to trustee learning styles. Delivery methods may include in-person presentations, facilitated discussions, online presentations, reading materials, and more.

**Leverage the improved trustee knowledge** not only for board discussion and decision-making, but also through coordinated outreach, including legislative advocacy and connections with the local community through trustee involvement in community activities, and formal and informal community discussions and presentations about the organization and the challenges it faces.

**Continuously refine and improve the process.** Conducting a regular board self-assessment process is one method to measure year-over-year improvements in board understanding and education effectiveness, and determine potential “knowledge gaps” that still exist.

Building expectations for growth and development of the board’s knowledge capital will result in better dialogue, better decisions, and knowledge-based leadership that will drive future governance performance and organizational success.

# Q: How does the board keep conflict out of the boardroom?

It's a simple fact that conflicts of interest erupt in hospital boardrooms from time-to-time. It is the board's fiduciary duty to ensure that all governance deliberations and decisions are carried out without conflict of interest, always with the best interests of the hospital at the forefront.

**H**ospital board members are often involved with many other organizations in the community, resulting in a wide range of business and personal relationships. Ethical codes and policies developed by a hospital and its board members serve as a foundation to ensure a conflict-free environment. Hospital leaders who create and adhere to a strong conflict of interest policy will be successful in ensuring open and honest deliberation.

## What is a Conflict of Interest?

A conflict of interest exists when a board member, senior leader, or employee has a personal or business interest that may be in conflict with the interests of the hospital or health system. A "red flag" should be raised anytime the personal or professional concerns of a board member affects his or her ability to put the welfare of the organization before personal benefit.

Board members are often affiliated with many business, social, charitable and religious organizations in the community. There may be times when trustees feel pulled in conflicting directions, and where they must decide between loyalty and fiduciary service to the hospital, or to another community organization, friend, or family member where there is a close and potentially conflicting connection.

The key for boards is to establish a process for preventing and addressing the inevitable conflicts that arise, and ensuring that conflict of interest policies and procedures are consistently adhered to.

### ***Conflicts Are Not Always Cut and Dried.***

Conflicts of interest can be complicated, and are almost always unintentional. In some cases no conflict actually exists, but the perception of a conflict of interest can be just as detrimental.

For example, questions may arise when board members serve in various roles with other organizations. There might be interpersonal and financial relationships that call into question whether the individual will be able to make decisions free from the influence of their other roles.

Questions should arise when the personal interests of a board member appear to be at odds with the interest of the hospital or health system.

**A "red flag" should be raised anytime the personal or professional concerns of a board member affects his or her ability to put the welfare of the organization before personal benefit.**

#### What's Included in a Conflict of Interest Policy

- **Statement of purpose**—An overview of the purpose of the policy, including protecting the organization's interests.
- **Definitions of who the policy addresses**—The legal definitions of who the policy applies to, including any director, principle officer, or member of a committee with governing board delegated powers.
- **Financial interest**—The definition of when a persona has a financial interest.
- **Procedures**—Details of the procedures included in the policy, including a duty to disclose, determining whether a conflict of interest exists, procedures for addressing the conflict of interest, and what to do when violations of the conflict of interest policy occur.
- **Records of proceedings**—What's included in the minutes of all board and committee meetings.
- **Compensation**—Details about what voting members may and may not do related to compensation.
- **Annual Statements**—The requirement that all directors, principal officers and members of a committee with governing board powers sign annual a statement agreeing to receiving, understanding and agreeing to abide by the conflict of interest policy.
- **Periodic Reviews**—Organizations must conduct periodic reviews of specific components of the conflict of interest policy to ensure the organization's tax-exempt status is not jeopardized.
- **Use of Outside Experts**—Outside experts may be used for periodic review of the policy, but if they are used they do not relieve the governing board of its responsibility to ensure that proper periodic reviews are conducted.

Source: Instructions for Form 1023. Internal Revenue Service. <http://www.irs.gov/pub/irs-pdf/i1023.pdf> . Rev. January 2020.

#### What Can Boards Do to Prevent a Conflict of Interest?

Having multiple systems in place to safeguard against conflict of interest ensures hospitals will minimize personal dilemmas covering a variety of issues, such as financial gain or business or family benefits. These safeguarding procedures will help the hospital and its board to be prepared when real or perceived conflicts do occur.

**Encourage Self-Monitoring.** It may be uncomfortable to “call out” a board member on a potential conflict of interest. For “self-monitoring” to be effective, it is critical to have a clear policy in place and tools for board members to use to either declare a conflict of interest or to request consideration about whether a fellow board member has a potential conflict of interest. When this happens, the process of determining potential conflicts

becomes less personal, and instead is simply a part of the board's standard processes and procedures.

It is the board chair's responsibility to oversee this process. The chair should encourage board members to be transparent about any potential concerns they may have. The chair should meet with individuals to discuss potential conflicts, and determine if any issue needs to be re-opened or re-examined if an individual's conflict may have influenced the discussion or decision.

**Rural Hospitals Have Greater Challenges.** Small and rural hospitals may find it more difficult to minimize or eliminate conflicts of interest because they generally have a smaller pool of potential candidates from which to choose. Often in a small community one individual may serve on multiple boards or be involved in some leadership or financial capacity with multiple organizations and/or community groups.

#### Best Practices in Addressing Conflict of Interest

- Provide board education about conflict of interest, and what it means to be “independent.”
- Have a conflict of interest policy in place that complies with IRS requirements.
- Require every board member and senior leader to annually complete a conflict disclosure statement.
- Ensure a clear process for declaring real or perceived conflicts that arise mid-year.
- Facilitate a board culture that encourages “self monitoring” and transparency as a part of every day board processes and procedures.
- Encourage communication about potential conflicts that occur during a board discussion, and ask conflicted board members to step out for both discussion and voting where any conflict exists.
- Document all real or potential conflicts and how they were addressed in meeting minutes.
- Consider if the board requires a specific committee to address potential conflicts.
- Ensure that at least the majority of the full board is “independent.”
- Change committee charters to include “independence” requirements, including 100% of the Executive Compensation Committee and 100% of the Audit Committee.
- Ensure the process for recruiting and selecting new board members aligns with the organization’s conflict of interest policies, and that potential candidate are willing to be candid about potential conflicts.

The key to ensuring conflict-free discussion and decision-making is to recognize and minimize conflict of interest as much as possible, even though it may not be completely eliminated. Ensuring that a comprehensive conflict of interest policy is in place that requires full disclosure is a critical first step, allowing for board members with conflicts to remove themselves from discussions and decisions when appropriate.

**Physicians On Board.** Physicians bring valuable knowledge and expertise to governance, and their inclusion as board members is also recognition of the stake they have in the delivery of well-integrated, patient-centered care. However, physicians may also confront significant conflicts of interest as trustees of hospitals or health systems for whom they are employed or part of the medical staff.

Physicians must enter trusteeship with a clear understanding that their contribution is one of leadership and clinical competency. Physicians should not expect, nor be expected, to serve as representatives of the entire medical staff. In observing their fiduciary duties,

physician trustees must put the organization’s interests ahead of their own.

If the real or perceived conflict of interest is too great, organizations may consider recruiting non-employed physicians or other clinicians to serve on the board.

**Recruit Outsiders.** Some hospitals may find it difficult to recruit individuals with specific skill sets who do not have a conflict of interest due to other business, governance or family relationships. If the board seeks a new trustee with a desired skill or experience, recruiting someone from outside the service area may be a workable option. Non-local board members can often bring fresh perspectives to the board, and are less likely to have conflicts of interest. If this happens, the board must be assured that trustees recruited from outside the community are committed to the hospital and the community it serves.

**Ensure a Proper Process for Recruiting and Selecting New Board Members.** When selecting new board members, a primary objective should be to ensure a wide range of knowledge and experience. This should

involve an evaluation of potential candidates' strengths, and discussion about how those strengths best complement existing board members' talent, knowledge and experience.

When governance candidates are interviewed, they should be asked about any potential conflicts prior to their appointment to serve on the board. Although conflicts may not necessarily disqualify a candidate, the candidate's willingness to talk candidly about and fully consider potential conflicts they may have should play a key role in the nominating committee's decision.

### Reporting Conflicts of Interest

The best way to prepare for conflict of interest situations is to establish a process for declaring potential conflicts before they arise. Declaring real or perceived conflicts in advance ensures open communication amongst board members and senior leaders, and prevents potentially problematic situations down the road.

**Disclosure Statements.** Once a conflict of interest policy is in place, every trustee and senior leader should annually complete a conflict disclosure statement. While the conflict of interest policy defines what a potential conflict is, the disclosure statement is the mechanism for individuals to declare any potential conflicts they may have.

The disclosure statement is generally a standard form prepared by the organization that requires individuals to initial or agree that they:

- 1) Have read and are familiar with the conflict of interest policy; and
- 2) Are not aware of any direct or indirect conflicts of interest, based on the definitions developed by the organization, or have attached a letter describing any direct or indirect conflicts of interest that exist.

In addition, individuals should sign a statement agreeing to report any new conflicts that arise throughout the year in a timely manner. Each trustee should complete the statement annually.

**Collecting and Reviewing Disclosure Statements.** Organizations may designate a compliance officer who is

### Conflict of Interest Case Example

A conflict of interest scandal involving Memorial Sloan Kettering Cancer Center in New York provides a high-profile example of policies not being followed.<sup>2,3</sup>

- A world-leading breast cancer doctor and the chief medical officer at the center had collected millions of dollars from deals with pharmaceutical companies, medical device manufacturers and consultants.
- The same doctor also served on the boards of Bristol-Myers Squibb (a drug manufacturer) and Varian Medical Systems (a company that sells radiation equipment).
- An independent review determined that while the conflicts weren't intentional, they happened because the Memorial Sloan Kettering board lacked oversight. The investigation also identified other conflicts of interest occurring.
- The review determined that the conflicts and profit-making deals did not occur through intentional misconduct, and that no harm was done to patients or to research.
- The organization immediately took corrective action, including creating a board committee to oversee conflicts.

responsible for reading the disclosure statements and monitoring for potential conflicts when they arise. The compliance officer should be responsible for collecting disclosure statements from all board members covered by the policy. In addition, board members should report any new conflicts (whether actual or perceived) that arise during the year to the compliance officer. Board members should never wait until it is time to update their annual disclosure statement to declare a new conflict.

If the board has appointed a specific committee to address potential conflicts, the compliance officer may also be the chair of the group or committee charged with handling conflicts. In some cases, larger organizations may contract with a legal expert to handle the collection and review of disclosure statements and to help ensure compliance.

### Addressing Conflicts of Interest After They Arise

Conflicts of interest may happen unintentionally if an individual does not recognize a potential conflict of interest or recognizes the conflict after the fact, or intentionally if an individual chooses not to reveal a known conflict. Regardless of the source of the breach, the board must have a process in place for dealing with these difficult situations before they occur.

**Known Conflicts.** If a conflict arises that has been disclosed through the annual disclosure statement, the board meeting minutes should reflect the conflict and describe the action taken. For example, did the board member remove himself or herself not only from the discussion, but from the board room? Did the board continue the discussion and determine their decision was in the best interest of the hospital despite the potential conflict?

Although there are a few exceptions, in most instances the board should not allow conflicted board members to participate in the discussion or vote on any issue where a conflict of interest exists.

**Unknown Conflicts.** The situation becomes more complicated if a conflict becomes apparent that has not been previously disclosed. A potential new conflict can be recognized by a board member, or recognized or perceived by another board member. In this situation, discussion should take place between the board member with the potential conflict and the board chair or committee that oversees conflicts of interest. If an agreement is reached about how to address the conflict, no further discussion is necessary. If the board member does not recognize the potential conflict, the issue should be brought before the full board for discussion.

Unknown conflicts can arise during board meeting discussion or after a board meeting. The key is to communicate, and be honest. If the conflict can be addressed at the board meeting, the board can decide how to proceed and note the decision in the meeting minutes. If the conflict is realized or communicated after a board meeting, the board must decide how to address the conflict and take a re-vote if necessary.

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# Q: What is the board's responsibility for ensuring a positive workplace culture?

Attracting and retaining motivated, dedicated, high-quality employees is a continual challenge, one that will become even more critical as the workforce ages, demand for success escalates, and competition for qualified health care workers intensifies. The board of trustees plays a pivotal leadership role in ensuring their hospital has a workplace culture that will attract and retain a high-quality workforce prepared to meet both today's and tomorrow's community needs.

**W**ithout enough qualified caregivers and support staff, hospitals will not be able to successfully meet the growing health care needs of their communities. Hospitals must be well-prepared for increasing service demands and changes in health care demands while also experiencing burnout and shortages in key areas, including physicians, nurses and allied health professionals.

The shortage of needed hospital professionals is a critical challenge for hospitals, and should be a priority for their boards of trustees. Resolving the workforce shortage will take action on many fronts, in large part through retaining valued and essential health care workers by improving employee commitment and loyalty to the organization and its community health improvement mission.

## Health Care Workforce Needs are Changing

Today's health care workforce is changing, in part because the way people access health care services is changing. While many industry-changing shifts were already occurring prior to 2020, the COVID-19 pandemic has radically upended the health care workforce environment and experts predict many of the changes to have permanent implications.

Chief among these shifts include the:

- Transition toward care in non-traditional outpatient settings, including retail-based clinics.
- The shift toward telehealth, including local providers, regional providers, mental health specialists, and national providers such as Amazon Care.
- Increased utilization of medical technology, allowing for more at-home care and remote monitoring.
- The use of Advanced Practice Providers for care traditionally provided by physicians, particularly in the area of primary care. Examples include nurse practitioners (NPs), certified register nurse anesthetists and physician assistants (PAs).

As the field moves forward to embrace a new generation of caregivers and new ways of providing care, boards of trustees must set the agenda and provide the will and resources to ensure their organizations' success.

Employee motivation, dedication, commitment and loyalty, as well as encouragement of creativity and employee empowerment to use technology and people in new and innovative ways, will play critical roles in quality and patient satisfaction and employee recruitment and retention. Hospitals' ability to successfully meet patient and community needs will be dependent on their

ability to ensure a workplace culture in which employees are valued, involved, engaged and empowered to play a vital role in achieving the mission and strategic objectives.

### Provider Burnout

Before the COVID-19 pandemic, reports indicated between 35 percent and 54 percent of U.S. nurses and physicians had symptoms of burnout. This included high emotional exhaustion, high depersonalization (or cynicism) and a low sense of personal accomplishment from work. For many, long hours and increasing administrative tasks played a big role.<sup>1</sup>

Part-way through the pandemic, half of physicians reported experiencing inappropriate anger, tearfulness or anxiety due to COVID-19's effect on their practice or employment. More than 70 percent of nurses reported suffering from challenges with sleep during COVID-19, half reported feeling overwhelmed, and thirty percent reported feelings of depression.<sup>2</sup>

Hospitals have an opportunity and an obligation to help clinicians feel valued and supported and improve work-life balance. The National Academy of Medicine suggests hospitals and health systems focus on six goals to reduce burnout:<sup>1</sup>

1. Create positive work environments
2. Create positive learning environments
3. Reduce the administrative burden
4. Enable technology solutions
5. Provide support to clinicians and learners
6. Invest in research on clinician well-being

### Critical Shortage Areas

The health care industry is facing shortages in a variety of areas, including clinical and non-clinical roles. While not the only cause, the aging population is a contributing factor to both health care needs and the workforce supply. Currently the U.S. has the highest number of

Americans over the age of 65 compared to any other time in history. This population typically has an increased need for health care services.

At the same time, the workforce is aging and shortages of new providers are insufficient to keep up with demand. For example, currently nearly thirty percent of U.S. nurses are age 60 and older, with less than 10 percent in their 20s. As older nurses retire, nursing facilities are also facing shortages that lead to limitations on how many students can be accepted into nursing programs. Similarly, shortages of physicians have been linked to the aging physician workforce.<sup>1, 3</sup>

**Physicians.** There is projected to be a shortage of 21,400 - 55,200 primary care physicians by 2033.<sup>2</sup> The Health Resources and Services Administration has designated more than seven thousand communities as primary care Health Professional Shortage Areas, which translates to communities impacting nearly 80 million Americans. According to the Association of American Medical Colleges (AAMC), critical shortage areas are primary care and specialists including pathologists, neurologists, radiologists and psychiatrists.<sup>1</sup>

**Nurses and Other Clinicians.** The shortage of nurses is even more pronounced than physicians, with a projected need of 2,000,000 nurses by 2026 but only a projected increase in supply of 500,000.<sup>2</sup> While the health care industry and educational institutions have been working creatively to bolster the future supply of nurses, the current structure doesn't support the capacity needed. Shortages are also occurring in other positions, including certified nursing assistants (CNAs), medical assistants and technician positions.<sup>1</sup>

**Behavioral Health Professionals.** Prior to COVID-19, it was reported that one in five adults and kids had a mental health or substance abuse issue. The Journal of the American Medical Association reported that mental health and substance abuse is a bigger "disease burden" than cancer or heart disease, but only 40 percent of adults and half of kids get help.<sup>4</sup>

Unfortunately COVID-19 has highlighted and exacerbated this often-silent challenge. At the end of 2020 the Centers for Disease Control and Prevention (CDC) confirmed that 2020 recorded the highest number of drug overdose deaths ever recorded in a single year.<sup>5</sup>

#### Workforce Problems Board Leadership Can Prevent

- **Not valuing employee input.** No one has better insight into potential improvement opportunities than the employees doing the everyday hard work. Employees must feel valued and heard, and have opportunities to impact meaningful change in the organization.
- **Culture of blame.** Developing workable solutions to problems without placing blame is a key factor in quality improvement. Likewise, employees and managers should not engage in “finger-pointing” and placing blame on one another when problems arise, but should rather use the occasion as an opportunity to pinpoint a performance gap that must be closed.
- **Lack of a sense of value.** Employees must feel valued and appreciated; although constant feedback from co-workers is critical, positive feedback from management as well as the executive team plays a crucial role in ensuring that employees feel appreciated.
- **Dysfunctional leadership team.** Lack of a cohesive, unified leadership team sends a mixed message to employees and can cause divisiveness among the leadership team as well as employees that take “sides” with specific members of the leadership team.
- **Uneven and inconsistent performance evaluation process.** Lack of consistency in the manner in which employee evaluations are conducted can not only result in employee perceptions of unfair promotions and a poor employee-management relationship, but it also tends to coincide with employees receiving little feedback (positive or negative), limiting employees’ ability to improve their performance.
- **Lack of organizational transparency and sharing of information.** Building employee morale and a sense of trust is difficult when employees do not feel included in organizational decisions. For example, employees should never read about organizational news online before hearing it first at work.
- **Unclear mission, vision and strategic direction.** Although the board and leadership team may have a clear direction for the future, if it is not clearly communicated to employees they may feel that the organization has no direction and/or decisions are made without a “bigger picture” in mind.
- **Confusion in organizational structure and functions.** Employees must know who they report to, who conducts their annual evaluation, and understand the “chain of command” if they need to discuss an issue with someone above their immediate manager or supervisor.
- **Lack of interaction and decision protocols.** Lack of a clear definition and adherence to simple protocols addressing reporting relationships can create animosity among employees, supervisors or managers that believe their authority and responsibility has been undermined.
- **Rumors, misinformation and mixed messages.** Lack of effective communication can result in rumors about the organization or mixed messages from the leadership team, leading to a confused workforce and a perceived lack of management consensus and cooperation.

Across the United States there are currently about 9 psychiatrists per 100,000 people, but the recommendation for good mental health care is 15 per 100,000. In more than half of all U.S. counties there are no practicing psychiatrists. Like other professions, 60 percent of psychiatrists are over age 55 and nearing retirement.<sup>4</sup>

Projections for other behavioral health professions are similar. For example, the demand for addiction counselors is projected to increase between 21 percent and 38 percent by 2030.<sup>1</sup>

One benefit of the COVID pandemic has been consumers' increased willingness to engage online, allowing more opportunities for telepsychiatry. While the willingness for virtual visits has the potential to expand access to services for areas without behavioral health providers, it doesn't solve the critical problem of overall shortages in the number of providers available.

**Technology and Analytics.** Information technology and analytics experts are also in high demand and expected to increase with the emphasis on interoperability, value-based care, artificial intelligence (AI) and telehealth and virtual medicine. Analysts can be particularly difficult to recruit for hospitals and health systems with lower budgets competing with larger companies and tech giants.<sup>1</sup>

### Quality and Safety Implications

Shortages of personnel have the potential to result in increased medical errors and negatively impact patient experiences. Labor shortages may force organizations to require overtime, which is not only expensive, but for some categories of health care professionals poses a risk to patient safety.

The Institute of Medicine (IOM) has connected provider fatigue to challenges that impact patient care, including impacts on memory, a reduced ability to learn, negative impacts on critical thinking, increased risk-taking behavior, and impaired mood and communication skills. Other studies have found that sleep-deprived nurses are more prone to errors that can impact patient safety, particularly if shifts last 12.5 hours or more.<sup>9</sup>

### Top Challenges Impacting Future Workforce Needs

According to the most recent Healthcare Information and Management Systems Society (HIMSS) report on the health care workforce, the top ten challenges hospital and health systems face as they consider the future workforce include:<sup>7</sup>

- Cybersecurity, privacy and security
- Improving quality outcomes through health information and technology
- Clinical informatics and clinician engagement
- Culture of care and care coordination
- Process improvement, workflow and change management
- User experience, usability and user-centered design
- Data science, analytics, clinic and business intelligence
- Leadership, governance and strategic planning
- Safe information and technology practices for patient care
- Health information exchange, interoperability data integration and standards

Workforce shortages may also force organizations to utilize contract or agency employees. While this reduces the potential for provider overtime and fatigue, this is expensive and can place additional strains on employees as they assist non-employed health care workers who do not understand the organization's policies, procedures and protocols.

### Workplace Violence

Hospital and health care workers are among those at greatest risk for workplace violence—a fact with significant consequences in a field generally considered a haven for hope and healing. Research from the Government Accountability Office and Bureau of Labor

Statistics report that the rate of serious workplace violence incidents is five times greater in the health care setting than in the general workforce. In addition, health care workers are four times more likely to take time off for violence-related injuries than any other kind of injury.<sup>1</sup>

At a time when workplace stress and burnout are skyrocketing, the threat of workplace violence and its implications on the workforce and ultimately patient care is a threat hospitals should take very seriously.

Hospitals must be part of the solution, and the board and senior leadership set the tone. This includes zero tolerance policies, workplace education and training, and implementing policies and procedures that prevent and manage violence.

According to the AHA, steps many hospitals have taken to reduce and prevent violence include installing cameras and security call buttons, limiting access to work areas to people with badges, limiting guest hours, installing metal detectors, increasing the presence of police, and implementing de-escalation training and emergency preparedness plans.<sup>1</sup>

For more information about the American Hospital Association's Hospitals Against Violence go to [www.aha.org/HAV](http://www.aha.org/HAV).

### Case Study: Improving Quality and Decreasing Nursing Turnover

When Midland (Texas) Memorial Hospital implemented a staffing system that used predictive analytics to identify future nurse scheduling needs, the organization experienced:<sup>1</sup>

- 64% decrease in catheter-associated bloodstream infections
- A decrease in other hospital-acquired conditions, including falls and pressure ulcers
- 32% decrease in nursing turnover

### Board Leadership Actions to Help Ensure a Positive Workplace Culture

The board of trustees should ensure that the executive team has a plan of action to achieve specific organizational goals related to the workforce, including critical workforce shortages, employee and provider loyalty and satisfaction, provider burnout, employee empowerment, workplace violence, addressing diversity and equity of care, living the organizational ethics and values, and quality and patient safety.

While the details are implemented by senior leaders, the board sets the leadership tone and financial backing to encourage:

- **Investing in technology** that improves the patient care experience and strengthens employee recruitment and prevention, including information technology, medical technology and artificial intelligence.
- **Prioritizing employee engagement**, including continually seeking employee feedback and taking action based on the feedback. Boards of trustees and senior leaders must continually strive to find new and innovative ways to seek employee feedback, and demonstrate that employee ideas and opinions are highly valued.
- **Ensuring a continual focus on quality and patient safety**, including opportunities for employees to provide feedback and directly influence quality.
- **Motivating and retaining employees on the edge of retirement**, which may include shorter hours, teaching, training, mentorship or other roles that utilize their extensive experience and expertise.
- **Understanding what motivates and drives the next generation of employees**, and how to facilitate positive inter-generational relationships.
- **Recruiting and retaining a diverse and inclusive workforce** to ensure culturally competent care and equitable access to care for the entire community.<sup>1</sup>

## Critical Questions Every Hospital Board Needs to be Able to Answer

### The Board's Role in Nurturing a Positive Workplace Culture

- **Seeking opportunities for providers to practice at the top of their license**, shifting from physician-centric to team-based models that combine physicians with registered nurses, nurse practitioners, physician assistants and others.<sup>1</sup>
- **Providing ongoing educational opportunities** for all employees, for both learnings in current roles and to further advance career opportunities.
- **Leveraging telehealth** to better provide care to rural communities and those with limited access to care, and provide opportunities for providers interested in working in non-traditional formats.
- **Partnering with community organizations** to provide greater continuity of care and build employee opportunities for new care approaches and providing care that impacts all areas of community health.
- **Offering remote work opportunities and flexible hours** when feasible to compete with other industries where remote work is increasingly an option.
- **Ensuring meaningful performance evaluation methods and results** that encourage two-way

dialogue, provide positive and constructive feedback, and provide fair and equitable review and compensation.

- **Prioritizing employee safety**, including an organization-wide zero tolerance policy for workplace violence.
- **Ensuring organizational transparency**, which may require a cultural shift for some organizations. Transparent organizations allow employees to see and share information and make suggestions. They communicate strategies and objectives to employees, and provide regular updates about progress toward achieving those objectives.

**Boards of trustees and senior leaders must continually strive to find new and innovative ways to seek employee feedback, and demonstrate that employee ideas and opinions are highly valued.**

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# Q: What is the board's accountability for ensuring the right organizational structure?

Hospitals and health systems today are under significant financial pressure. At the same time, hospitals are continuing to seek new ways to deliver value-based care and improve the health of their patients and communities. To address both the financial pressure and the need for greater integration across the continuum of care, many hospitals are considering some form of affiliation with another organization that brings the financial strength and resources required to help them achieve their mission.

In order to determine the alternative that best suits a hospital, it is imperative for the hospital's governing leadership to take a long-term view, and carefully determine the approach that will best ensure the development, continuity and security of the community's health care. The organization must be operated and structured to provide flexibility and responsiveness to the community's current health needs, and be able to effectively respond to emerging health needs.

Hospital boards should consider the following key questions they evaluate any change to their present organizational structure:

- What is the organization's most viable and valuable health care role, both now and in the future?
- What is the organization's position in the regional health care continuum, and how can that position be solidified?
- What strengths and assets are most critical for the organization to possess?
- What types of management and operating resources does the organization need to have access to in order to meet future community and organizational needs?
- How should the organization be structured to be able to best meet the health needs of the community? Is the status quo the best alternative, or something else?

## Consolidation Can Bring Opportunities

There is some disagreement among experts about whether consolidation in the health care industry has a positive or negative outcome on patients and the communities served. Some argue that consolidation leads to higher health care prices, reduces consumer choice and access to care, and does not improve quality.

Others argue the opposite. In a recent study, researchers found that hospital mergers result in:<sup>1</sup>

- Opportunities for hospitals to create connected networks of care and keep the focus on improving patient care.
- Decreased costs due to increased scale.
- Quality improvement through updating clinical operations across a health system, implementing consistent best practices and enhancing the promise of technology and data analytics.
- Declines in the rates of readmission and mortality.
- Financial stability for struggling hospitals through operational efficiencies associated with shared costs.
- Community access to the full continuum of care leading to more regular and convenient access to physicians, including specialists.

### Is an Affiliation or Partnership Right for You?

As the health care landscape changes, some organizations may find that the best way they can remain financially viable and most effectively meet their community's needs is to form an affiliation with another organization. Other organizations may find just the opposite, realizing that they can best meet local needs by remaining a stand-alone or independent hospital.

**The board must lead the organization in making this decision.** The first step is gathering information to make an informed decision, including:

- **Seek out stakeholder viewpoints**, which may include stakeholder interviews, community focus groups, research among stakeholders, surveys of the leadership team and employees, and an internal department and service line analysis.
- **Gather factual data and information** that compliments the stakeholder viewpoints and provides leaders with the information they need to make evidence-based decisions. This may include national, regional and local trends as well as organizational-specific metrics.
- **Hold a strategic planning session** dedicated to reviewing the information and implications, focusing on the hospital's strategic goals for the future.

### Overview of Operating Structures

Hospitals have several options for changing ownership, affiliations and structure. The best option will be determined as a result of a careful examination of the hospital's current operating performance, resources and needs, projections of future needs, challenges and opportunities, assessment of national and local health care trends, and community needs. Below is a brief summary that describes four basic organizational alternatives, which is followed by a summary of the advantages and disadvantages of each alternative.

**Independence.** Some maintain that an independent hospital cannot be fully effective and successful in meeting the community's health care needs in today's complex and rapidly-changing health care environment. However, a case can also be made that an experienced, professional and capable CEO, working closely and effectively with an educated, motivated, responsible and committed board of trustees and medical staff, can still be successful in today's challenging environment.

The keys to success as an independent hospital are leadership, vision, capital, and community loyalty and commitment. The administration and the board must be able to anticipate and aggressively and effectively deal with the multitude of complex issues facing the hospital, operate successfully in a climate of rapid change, offer uniqueness and distinctiveness in services and customer service, deliver high quality that meets or exceeds patient needs and earns patient and community loyalty, and be able to preserve or expand market share in the service areas provided.

Advantages of independence may include:

- Continued status as community-owned and community-governed.
- CEO reports directly to the board of trustees, ensuring clear and direct lines of local responsibility and authority.
- Flexibility in making operating decisions and changes without outside interference.
- Preservation of current structure and identities.

Disadvantages of independence may include:

- Current financial and utilization trends may inhibit ability to improve services and long-term viability.
- Potential for narrow, isolated decision-making may cause the hospital to miss opportunities.
- Fewer options to access capital.
- Greater vulnerability to competitive threats.
- Lack of immediate, ready access to needed personnel.

### Trends in Mergers and Acquisitions

According to Deloitte, while hospital consolidation has continued to increase in recent years, some hospitals in rural and suburban settings continue to exist independently. Deloitte is predicting rapid consolidation of health systems in the future, in part because of industry trends toward more virtual care, fewer hospital beds, and the need to innovate through new capabilities, resources and relationships.<sup>2</sup>

Based on modeling in 2020, Deloitte predicts that in 2030 the United States will experience:

- A 35% decline in inpatient hospital revenue
- A 44% decline in demand for hospital beds, meaning hospitals will be smaller and there will be fewer hospitals
- Mergers and acquisitions will likely occur in nearly every market, with some consolidating to provide a more focused care delivery model and others to simply survive

Importantly, Deloitte suggests that hospitals and health systems can control their own future and innovate care delivery by:

- Ensuring an asset portfolio that aligns with the organization's long-term strategies and market trends, including the shift away from inpatient care and the importance of equity, prevention and community health
- Conducting analysis to fill in gaps to gain new capabilities, including non-inpatient care delivery services and non-health care revenue
- Maximizing and fully integrating current assets, including legacy acquisitions and considering if divestitures are necessary

**Management Contract.** Operating successfully under a full-service management contract requires strong communication between the organization, its board and the management entity, and a clear understanding of and agreement to mutual objectives and expectations.

When management contract arrangements fail it is often because the hospital client does not adequately analyze and understand its true needs, select the appropriate management firm, structure an appropriate, mutually-beneficial contract, and then manage the contract to ensure that the hospital's goals, services and actions are directly related to those needs.

There are two types of management contracts a hospital could consider: 1) full-service management contract with a hospital management company; and 2) management contract with a regional hospital or hospital system that can offer access to the range of management services the organization needs.

Advantages of a management contract may include:

- Continued status of the hospital as a community-owned, community-governed and locally-managed organization.
- Governing autonomy and flexibility preservation.
- Management company experience provides access to proven and tested systems and programs that may be successfully adapted to the hospital's needs.
- Easy and immediate access to a broad range of key personnel and management company resources makes it convenient for the organization to access needed assistance quickly.
- Opportunity for information exchange with other managed hospitals with similar needs.
- Flexibility to terminate the management contract if the board of trustees becomes dissatisfied with the management company's performance.

## Critical Questions Every Hospital Board Needs to be Able to Answer

Joining Forces: A Trustee's Guide to Organizational Affiliations

Disadvantages of a management contract may include:

- Added cost of the contract to already strained financial resources.
- Loss of decision-making autonomy and flexibility (based on contractual provisions).
- Potential to develop a “dependency” on the management company’s products and services
- making any necessary return to proprietary management difficult.
- Potential to lessen somewhat the board’s sense of community and fiduciary responsibility and accountability.
- Key personnel are employees of the management company, not the hospital. Management “loyalty” is to both the board of trustees and the management

### Questions for Boards to Consider

- How satisfied are you with the progress the hospital has made in the last five years?
- Is the hospital mission still an accurate description of the hospital’s purpose? If not, what should be changed?
- Is the vision an accurate picture of what the hospital should be striving to become? If not, what should be changed?
- How should your organization be structured to best meet the future health care needs of the community?
- What are the most significant characteristics of your current situation (e.g. market position, financial position, competition, opportunity for expansion, etc.)?
- What are the most dominant issues facing the hospital today? Short-term (next 12 months)? Mid-term (1 to 3 years)? Long-term (over three years)?
- What are the unmet or under-met health care needs of the community your organization serves?
- What local market trends are most critical to understand in shaping the hospital’s strategic future?
- What major assumptions should we make about the environment that will impact our ability to achieve our strategies (e.g. the economy, competition, reimbursement, changes in technology and consumer preferences, etc.)?
- What is the hospital’s unique, market-based vision in key success areas (e.g. community health status, quality of care, efficiency and ability to deliver value-based care, affiliations, community leadership, public trust, accessibility, appropriate services, innovation, technology, financial health, etc.)?
- What factors are most critical to the hospital’s success over the next 1 – 3 years (e.g. efficiency, value, patient satisfaction, quality, technology, community support, employee development, service innovation, consolidation, external relationships, market coverage, etc.)?
- What limiting factors will the hospital have to overcome to be successful?
- Where does the hospital have the most potential for growth? What services should the hospital consider in order to further solidify its market position?
- What are the hospital’s major strengths and competitive advantages? What are its significant weaknesses and competitive liabilities?
- What market niches or opportunities are most critical for the hospital to capitalize upon (short-term, mid-term and long-term)?

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### Joining Forces: A Trustee's Guide to Organizational Affiliations

company; however primary loyalty will likely be to the actual employer (the management company), on which key personnel rely for future opportunities.

- The organization pays for broad access to a range of services it may not need or utilize.
- May reduce or eliminate “comparison shopping” for vendors in key areas where the management company provides products and services.

#### **Lease to or Merger With Another Health Care**

**Organization.** A hospital lease is essentially a contract that gives possession of hospital land, buildings, equipment and services to a lessee for a specified period. Under a lease arrangement the organization gives full use and responsibility for the facility to another party to manage and operate as it sees fit, within the parameters specified in the lease agreement. A merger is essentially a transaction through which one corporation acquires the assets and assumes the liabilities of another corporation.

Advantages of a lease to, or merger with another health care organization may include:

- Access to new sources of capital for equipment, salaries, physician recruitment, etc.
- Streamlined, fully integrated decision making may create greater operational flexibility.
- Ability to improve competitiveness in the areas of cost, quality, and outcomes.
- Proceeds from the transaction, if any, to a newly-formed foundation (or other not-for-profit entity), which may be used in a variety of ways consistent with the hospital's mission.
- Predictable source of income over the life of the lease.
- Potential role for some form of local advisory board governance.
- Elimination of business risk.

- Single point of decision-making streamlines and speeds the decision process.
- Improved ability to align services and operations.
- Opportunity to streamline governance and operational decision-making and direction.

Disadvantages of a lease to, or merger with another health care organization may include:

- Loss of control: policy control is in the hands of the lessee or new entity.
- At some point the hospital may seek to regain control of operations, and could be required to assume significant costs to do so successfully.
- Under a lease, the philosophy and standard of care of the lessee prevails; there is no absolute assurance that services provided will match community needs.
- Under a lease, the cost of payments to the lessor becomes a new cost to the lessee, making it more difficult for the lessee to build a positive bottom line.
- Potential reduction in autonomy and identity.
- Community preference for an independent hospital.

**Strategic Affiliation.** A strategic affiliation is typically a looser arrangement under which two organizations agree to work together contractually to achieve a broad set of objectives. Strategic affiliations may take many different forms, with a variety of mutual commitments.

A strategic affiliation, under the right circumstances, may enable economic, governance and programmatic integration that could benefit a hospital and its employees, physicians and patients. It could also enable more streamlined payer contracting, and better coordinated management, governance and strategic planning. Services could be integrated and broadened, and managed care contracting strength could be enhanced.

## Critical Questions Every Hospital Board Needs to be Able to Answer

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### Joining Forces: A Trustee's Guide to Organizational Affiliations

#### Advantages of a strategic affiliation with another health care organization may include:

- Ability to benefit from the name and reputation of a larger, well-respected organization.
- Improved professional advancement potential for employees.
- Ability to improve competitiveness in the areas of cost, quality, and outcomes.
- Improved access to capital.
- Ability to reduce unnecessary duplication of services through appropriate service consolidation.
- Ability to be a part of a broader network of providers.
- Ability to be part of a unified managed care contracting effort.

- Ability to develop seamless joint initiatives.

#### Disadvantages of a strategic affiliation with another health care organization may include:

- Potential reduction in hospital autonomy and identity.
- The philosophy and standard of care of the controlling entity prevails; there is no absolute assurance that services provided will match community needs, or how and where services will be delivered.
- Community preference for an independent hospital.

Regardless of the organizational structure choice made in today's difficult environment, it is the board's responsibility to ensure that the choice strengthens the hospital's ability to achieve its mission and vision, and secures the long-term health care future of the community.

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# Q: What is the board's role in disaster planning?

The importance of disaster planning was already escalating in significance due to the increase in wildfires, hurricanes and other natural disasters as well as the growth in man-made tragedies including mass shootings and terrorist attacks. That was before COVID-19. When hospitals were inundated with COVID-19 patients in 2020, the presence of a well-designed disaster plan meant life and death not only in the short-term, but in the years to come as well.

It is the board's fiduciary responsibility to ensure that the administration has a clear disaster plan in place, with the funding and resources necessary to carry it out. Not only is the board responsible for ensuring that their organization is fully-prepared in the event of a disaster, disaster planning is an opportunity to improve the quality of service provided to the community, strengthen community relationships, and build lasting community trust and partnerships that benefit hospitals and health systems in many ways. In addition, the Affordable Care Act (ACA) and Joint Commission accreditation have specific requirements for disaster preparedness.

**Requirements Included in the Affordable Care Act.** The ACA includes a requirement that charitable hospitals have a written Emergency Medical Care policy in place that requires the provision of emergency care regardless of eligibility under the financial assistance policy. This means that hospitals must be prepared financially to handle the initial cost and long-term financial implications of caring for patients during an emergency.

**Joint Commission Requirements.** Joint Commission accreditation includes specific requirements relating to development of a written Emergency Operations Plan,

conducting a hazard vulnerability analysis, working with community partners, ensuring a communication plan is in place, and conducting annual drills. The Joint Commission has a dedicated website for hospital Emergency Management Resources, available at: [http://www.jointcommission.org/emergency\\_management.aspx](http://www.jointcommission.org/emergency_management.aspx).

**Disaster plans prepare for disasters, but are also an opportunity to improve the quality of service provided to the community, strengthen community relationships, and build lasting community trust and partnerships.**

## Preparing Before Disaster Strikes

Disaster preparations require collaborative work with local and regional community organizations, including potential competitors, to ensure a comprehensive plan is in place. Practice is needed to ensure that all key players know what they should be doing and are comfortable with their role before they are placed in a high pressure situation. Hospitals must be proactive in forming the necessary partnerships and conducting drills to ensure their community is prepared.

**Board and Administration Roles.** The board's role is to ensure the proper plans are in place and are fully funded. Board members and hospital leaders must work together to emphasize the importance of planning for

potential emergencies by dedicating the time and resources necessary to adequately prepare.

The board should be focused on policy, strategy and ensuring appropriate resources, while hospital leaders work on the details. To start, hospital staff leaders should develop or update the emergency plan, while board members familiarize themselves with its every aspect. Similarly, hospital staff leaders order the equipment, supplies and other materials necessary to carry out the plan, while the board makes certain sufficient funding is in place for purchases and any additional staffing that may be needed. The board may also be asked to help raise outside funds for specific disaster preparedness projects.

Staff leaders are responsible for arranging and coordinating drills and community-wide disaster simulations. The board is responsible for ensuring that drills and simulations take place, and should be prepared to assess, score and discuss the adequacy of the hospital's response, as well as the response and coordination of other participating community organizations.

**Board Review of the Plan.** In reviewing the disaster readiness plan, board members should look for three key elements:

1. Threat identification;
2. Detailed planning; and
3. Adequate simulation drills.

**1. Identify Logical, Likely Threats.** Every hospital should begin its disaster preparedness plan by conducting a "hazard vulnerability analysis" to determine the types of emergencies most likely to occur. For example, while hospitals along the Gulf Coast face a risk of hurricanes, those in the West will be concerned about earthquakes and wildfires. Hospitals in the Midwest may be concerned about flooding or severe winter storms, and those near chemical plants will focus on hazardous materials spills, burns and injuries from inhalation of fumes.

Hospitals also need to be prepared for the emergence of new diseases like COVID-19, SARS and Ebola. And although they seemed improbable until recent years, hospitals also need to be prepared for the threat of

"active shooter" situations in the facility or in the community, bombings and terrorist attacks.

Hospitals also need to consider the emerging cyber threats to their accounting, electronic health records, and the growing "internet of things" that are digitally interconnected within their facilities.

**2. Assess Threats, Create an Action Plan.** Once potential hazards have been determined, organizations must develop plans to address each emergency. The process should include all key players within the hospital family and the surrounding community. Working across departmental and agency boundaries will help to strengthen communication among all segments of the hospital and its community.

Hospitals must also ensure their facilities and equipment are prepared to withstand the effects of disasters such as hurricanes, earthquakes, and floods.

**3. Simulate the Disaster, Practice the Response.** An emergency plan will not successfully prepare a hospital or community unless it is practiced. Simulating a disaster helps key players understand their roles in the emergency plan and helps identify flaws in the plan, which can be amended before a real disaster strikes. Performing at least two practice drills a year is a requirement of Joint Commission accredited hospitals.

### Leveraging Community Partnerships

A coordinated response from local and regional community organizations is essential in ensuring the most efficient and effective response to an emergency. Community-wide emergency planning is stressed in The Joint Commission's standards, a concept that helps to ensure services aren't duplicated and resources are maximized in an emergency.

Ideally, when a disaster occurs community partnerships are already well-established and the organizations are prepared to work together in a collaborative manner. Hospitals and health systems have opportunity to:

- Leverage existing community partnerships and build new partnerships.

- Be part of community-wide disaster planning efforts, including emergency operations centers that help coordinate responses to emergencies.
- Be part of a shared community-wide crisis communication plan, which often begins with a task force of community leaders.
- Build relationships with community partners that may start with disaster planning, but provide opportunities for lasting relationships with community organizations, governmental agencies, and individual leaders in the community that can help strengthen community trust and support for the hospital in the long-term.

### Learning from Your Successes and Failures: Conducting a Post-Emergency Assessment

The board's role in a disaster does not end once the disaster has passed. When things are beginning to "return to normal," the board should be actively involved in assessing the hospital's response to the disaster. As with any crisis, some things will have gone according to plan, and some will not. The board should work with administration to weigh what additional resources are needed to aid the hospital as it updates and upgrades its disaster readiness plan, and seek ways to adequately fund these necessities.

### Questions for Boards: Disaster Readiness Checklist

- Has your hospital conducted a "hazard vulnerability analysis" to determine what types of emergencies are most likely to occur, and should be included in your disaster plan?
- Does your disaster preparedness plan focus on a general "all-hazards" approach, providing an adaptable framework for a variety of crisis situations?
- Have community health care leaders convened for disaster preparedness discussions?
- Has your hospital determined the scope and resources necessary for the emergency management plan and its implementation?
- Does your hospital have a separate crisis communications plan in place? Has it been developed in collaboration with other local community leaders?
- Does your hospital have back-up communications capabilities in place in the event that traditional forms of communication are either slowed or not functioning?
- Does your hospital have plans in place to rapidly expand clinical and non-clinical staff in the event of a disaster?
- Is there a plan for supporting the families of staff members working during a disaster? Does the plan cover assurances that family members are safe, child care, elder care, and pet care?
- Has your hospital determined how critical supplies will be obtained and allocated in the event of an emergency?
- Is your hospital prepared to potentially be "on its own" for up to 96 hours, as required by The Joint Commission?
- Does your hospital have a simplified patient registration procedure in the event of a large number of patients and/or casualties?
- Are your information systems backed-up in an off-site location with recovery capabilities?

### The Benefits of Being Prepared

In addition to meeting ACA and Joint Commission requirements, and ensuring readiness to meet immediate community needs during an emergency, thorough disaster planning also results in:

- **Board fulfillment of its fiduciary responsibility** to ensure that the hospital is able to care for the community in the event of a disaster.
- **Consistently high quality care and patient safety.** Ensuring the hospital's ability to respond to a disaster in the most organized and prepared manner possible also ensures that the quality of care provided throughout and immediately following the disaster will be top-notch.
- **Greater financial stability.** The hospital's financial position and long-term viability will be strengthened by its anticipation and preparation for the costs of a disaster.
- **Additional funding.** Advance planning allows time to raise funds to support the hospital's disaster plan.
- **Improved public trust.** Partnering with key stakeholders throughout the community instills trust and support for the hospital as it strives to meet community needs.
- **Demonstrated community benefit.** Hospitals' response to disasters and the readiness to care for all patients regardless of their ability to pay is a basic community benefit that the public, lawmakers and the media expect hospitals to fulfill.
- **Improved community health and wellness.** The hospital may need to isolate patients to prevent the spread of a highly contagious disease, respond quickly to air or water quality concerns, or promptly care for trauma victims.

Disasters can happen anywhere, anytime. Regardless of the size of the organization, every hospital and health system will play a critical role if disaster strikes their community. It is trustees' responsibility to not only ensure that their organizations are prepared, but to initiate the preparation process in a way that maximizes partnerships, improves internal systems, and strengthens quality of care and community benefits.

# Q: How does the board move forward after COVID-19?

The COVID-19 public health emergency has highlighted many challenges and opportunities in the health care system. As hospital and health system boards respond to the impact of the pandemic and think strategically for the future, there are many implications and opportunities to consider.

**A**s with any crisis, there is an opportunity for new thinking and innovation. Forward-thinking hospital and health system boards should not only be considering how to financially recover from the pandemic, but how the hospital can thrive in a new and emerging environment.

Some questions boards should consider include:

- *How has the COVID pandemic changed the way we provide care?*
- *Have we changed how the hospital operates, how we communicate and how agile our responses are?*
- *How has COVID changed the way patients access care?*
- *How can we use these changes to encourage innovation and leverage employee insight?*

## Financial Health

**COVID-19 Has Drastically Increased the Financial Burden.** The impact of COVID-19 on hospitals and health systems is immense. According to the American Hospital Association (AHA), COVID-19 has resulted in a projected loss of \$323.1 billion to hospitals and health systems in 2020. Health care leaders' top concerns include loss of revenue, overall financial stability, supply chain risk, staff getting sick, and furloughing staff.<sup>1</sup>

**The Focus on Value Remains.** Prior to the pandemic, America's health care system was in the middle of the transition from "fee for service" to payment based on value and outcomes. In recent years hospitals have engaged in a variety of new payment structures,

including value-based purchasing, Accountable Care Organizations, and bundled payments.

The value equation in health care hasn't changed:

$$\text{Value} = \text{High Quality} + \text{Low Cost} + \text{High Patient Satisfaction}$$

Now, more than ever, hospitals must commit to improving the components of that value equation. Quality should be infused in every board discussion. Boards should engage in continual education and conversations about understanding costs and new payment structures.

As hospitals recover from COVID-19, leaders have an opportunity to refocus their efforts on the areas that matter most. This will require an engaged workforce, innovative leaders, a willingness to explore non-traditional forms of care, expanding community partnerships, and addressing the social determinants of health that directly impact the populations hit hardest by the pandemic.

***How is your board setting the tone for both short-term financial recovery and success in the value-based care environment?***

## Workforce

Shortages of physicians and other caregivers has been a top challenge for hospitals and health systems for decades. Changes in how patient care is delivered, who delivers the care, and leveraging technology has helped alleviate some of the shortages, but the challenge still remains.

**The Projected Shortages Continue.** The number of physicians and nurses retiring combined with the increase in demand for services continues to widen the gap. There is projected to be a shortage of 21,400 - 55,200 primary care physicians by 2033. The shortage of nurses is even more concerning, with a projected need of 2,000,000 nurses by 2026 but only a projected increase in supply of 500,000.<sup>1</sup>

**Provider Burnout and Workplace Safety is More Important than Ever.** Before the pandemic, hospitals worked diligently to monitor and strengthen employee and medical staff satisfaction, ensure a strong employee recruitment pipeline, support staff to the full extent of their license, and ensure a strong organizational culture. Even with these approaches, there were concerns about provider burnout and depression.

Since the start of the pandemic, half of physicians report experiencing inappropriate anger, tearfulness or anxiety due to COVID-19's effect on their practice or employment. More than seventy percent of nurses reported suffering from challenges with sleep during COVID-19, half reported feeling overwhelmed, and thirty percent reported feelings of depression.<sup>1</sup>

Now, more than ever, hospitals must be committed to creating a safe workplace that encourages emotional health and well-being. Boards are responsible for setting the tone, prioritizing employee engagement, emphasizing quality and patient safety, and creating a culture that values all employees.

**Does your senior leadership encourage and value feedback and creative solutions from all employees? What can your organization do now to reduce the mental health burden on your workforce?**

## Innovation

Health care was already experiencing many innovative shifts prior to COVID-19, largely related to new technology, artificial intelligence, consumerism, and a greater focus on population health. But COVID has created a sense of urgency for organizations to pivot, refocus priorities, and innovate. The pandemic initially sparked ventilator inventions and distilleries making hand sanitizer, followed by new approaches to treating both

patients with and without COVID-19, and the rapid development of COVID-19 vaccines.

### **Employees are Key to Creatively Solving Problems.**

Hospitals and health systems were forced to radically change their care delivery almost overnight, most notably finding new ways to treat patients remotely. The ability for hospitals to listen to their employees and leverage employee creativity is directly related to innovation, particularly in a crisis.

In the AHA's *Futurescan*, Nancy M. Schlichting, former president and CEO of Henry Ford Health System, explained this well: "Employees and the medical staff are central to the success of any hospital or health system. They frequently know of a problem that requires change before leadership does, because they are closer to it. That insider's perspective often enables them to recommend the best solution."<sup>2</sup>

### **The COVID Crisis Will Fundamentally Change Health Care.**

While not all the quick shifts that occurred during the early days of COVID will remain, according to a recent poll, 90 percent of health care leaders agree that the COVID-19 crisis will fundamentally change the way they do business over the next five years.<sup>1</sup> In addition, more than seventy percent of health care leaders believe changes brought about by COVID will be an opportunity for growth.<sup>1</sup>

Now is the time for boards to leverage the creativity and innovation sparked by the pandemic.

For a robust set of resources, data and analytics, case examples and more, go to the AHA's Center for Health Innovation at [www.aha.org/center](http://www.aha.org/center).

**How did your organization adapt to COVID-19, and how can that momentum continue after the crisis ends? Are you maximizing employee and physician engagement to encourage innovation?**

**90% of health care leaders agree that the COVID-19 crisis will fundamentally change the way they do business over the next five years.<sup>1</sup>**

### Emerging Competitive Challenges

**Consumer Loyalty is Declining.** Before COVID-19 was widespread in the United States, a 2019 survey reported that the majority of consumers preferred to receive health care services from their own doctor or hospital (67%).<sup>3</sup>

The pandemic has shifted consumer mindsets. For many, concerns about COVID symptoms, the shortage of COVID testing, or simply a desire to see a provider—any provider—has led to a shift in where patients are getting care. For some, a virtual appointment with anyone was a “win.” For others, the loss of health insurance led to a shift in where they could access or afford care.

According to a September 2020 PBS NewsHour-Marist poll, thirty five percent of those polled said they think America’s health care system is below average compared to the rest of the world. In addition, two-thirds are now willing to use telemedicine for future health care needs.<sup>3</sup>

**Retail Health is Expanding.** In September 2019 Walmart opened its first Walmart Health center, which its website describes as a commitment to “making healthcare more affordable and accessible for customers in the communities we serve.” Walmart Health currently has multiple locations and plans to open more soon. Similarly, CVS is expected to expand its HealthHubs locations.<sup>12</sup>

The rise in retail clinics may be accelerated by the pandemic, providing an easy and safe way for consumers to access much-needed care. At the same time, retail clinics are leveraging their existing market share to support increased demand for telehealth.

In May 2020, CVS reported a 600 percent increase in virtual visits and a more than 1,000 percent increase in prescription home delivery.<sup>12</sup>

Many retail clinics were swift to respond in offering COVID-19 testing, including Walmart, Target, Walgreens and CVS Health.<sup>12</sup> Between their already growing presence during the pandemic and the use of retail providers to provide COVID vaccines to the public,

expect further willingness and interest to use these providers.

**Virtual Solutions are Growing.** Amazon Care is a great example of a virtual platform well-poised to meet this growing demand for telemedicine. Amazon launched Amazon Care in 2019 as a health care benefit for its own employees in Washington, and is in the process of rolling out its telehealth service to all employees in all 50 states, as well as other employers.<sup>4, 17</sup>

Particularly in the wake of COVID, consumers are increasingly open to this kind of “outside” and “non-traditional” care. In fact, these non-traditional providers are now what many consumers want instead. It’s immediate, easy, and often you don’t even have to leave your home.

**How does your organization meet the needs of consumers looking for fast, easy, affordable health care? Have you considered partnerships with organizations like Walmart, Amazon or Walgreens offering alternative options for care?**

**In 2019 the majority of consumers preferred to receive health care services from their own doctor or hospital...In 2020, two-thirds reported they were now willing to use telemedicine for future health care needs.<sup>3</sup>**

### Cybersecurity

**Cyber Attacks are on the Rise.** As telehealth has increased during the pandemic, the risk of cybersecurity attacks has also increased. Not only are patients engaging in more telehealth visits, but providers are increasingly working and accessing medical data remotely. According to Check Point Research, ransomware attacks increased 50 percent in the third quarter of 2020 compared to the first half of 2020. In addition, health care is the number one most targeted industry for cyberattacks in the U.S.<sup>5</sup>

**Hospitals Can Take Preventive Measures.** The American Hospital Association recommends that hospitals defend themselves by acknowledging the risk levels they face, updating cybersecurity and enterprise risk-management practices to correlate to the elevated threat level, and communicating ransomware threats to all stakeholders.<sup>1</sup>

For more on cybersecurity, go to [www.aha.org/cybersecurity](http://www.aha.org/cybersecurity).

***Has your board acknowledged the increasing risk of cyber attacks? How have you ramped up your cybersecurity?***

### Partnerships and Care Coordination

***New Collaboration.*** One exciting outcome of the COVID pandemic response is hearing the stories of organizations and individuals working together to develop solutions. Sharing of best practices and peer networking is nothing new, but the rapid evolution of COVID treatment and response has invited new forms of collaboration. At the beginning, it was finding people in the community to sew masks and donate supplies. As the complexity grew, so did the partnerships.

***National Platform and Case Examples.*** On a national scale, the American Hospital Association launched the AHA Living Learning Network, a platform that helps health care professionals share pressing COVID-related needs and tools and resources for learning and training. Locally, stories tell of hospitals partnering with cultural organizations to address COVID disparities, establishing new communication structures between hospitals and community organizations to rapidly respond to community needs and continued growth in partnerships to meet both community health needs and social needs in the midst of the pandemic.

For case examples highlighting hospital community partnerships and care coordination, go to [www.aha.org/type/case-studies](http://www.aha.org/type/case-studies) and [www.aha.org/topics/community-partnerships](http://www.aha.org/topics/community-partnerships).

***How have your organization's community partnerships and efforts to improve care coordination changed as a result of COVID? What should continue, and what learnings can you take away to move forward with?***

### Behavioral Health

***The Mental Health Epidemic Has Worsened During COVID.*** Before the pandemic, the Kaiser Family

### Making Innovation a Priority

It's human nature to want to help others and solve problems, particularly among health care workers who often pursue their profession because of that commitment. Crises like the COVID-19 pandemic are a perfect environment to spark innovation and develop new solutions. The challenge for boards is to capitalize on the innovation already taking place, and to carry the momentum forward.

Innovative boards set the tone for their organization when they:

- Prioritize innovation on their meeting agendas
- Make time to question assumptions and explore different ways of accomplishing goals
- Encourage open discussion and thinking that drives new ideas and approaches
- Value a combination of healthy questioning and collaborative thinking
- Seek input from inside and outside sources
- Allocate resources to support innovation throughout the organization
- Engage in innovation training for the board and senior leadership

Foundation reported that deaths due to drug overdoses increased more than threefold from 1999 to 2018. But the pandemic has taken an even greater toll on this major health challenge in America. In 2019, approximately one in ten (11%) of adults reported symptoms of anxiety or depressive disorder. But during the COVID pandemic, more than one in three adults reported the same symptoms.<sup>6</sup> In addition, 13 percent of adults reported new or increased substance use as a way to manage stress during the pandemic, and more than ten percent of adults reported thoughts of suicide.<sup>6</sup>

New data from the Centers for Disease Control and Prevention (CDC) confirm what many experts have warned about: 2020 recorded the highest number of drug overdose deaths ever recorded in a single year. For the twelve months ending in May 2020, more than 81,000 drug overdose fatalities occurred, and many believe the first few months of the pandemic played a key role.<sup>9</sup>

### AHA: How COVID-19 May Change Health Care Permanently

The American Hospital Association 2021 Environmental Scan predicts 10 ways that COVID-19 may change health care permanently:

- **Technology:** Acceleration of telemedicine, acceleration of digital health options, and innovations with drones and robotics.
- **Benefits:** Expansion of health reimbursement arrangement for employees.
- **Surgeries:** New strategies for elective surgeries.
- **Aides:** Growth of home-health aides.
- **Disparities:** An increased focus on racial disparities.
- **Drug Prices:** A push for the government to negotiate drug prices.
- **Supply Chain:** Development of local supply chain sources and an increase in U.S. drug manufacturing.
- **Preparedness:** A new era of health care preparedness.
- **Scope of Practice:** Increase scope of practice for non-physicians.
- **Payment for Value:** New payment models and a continued shift away from fee-for-service.

Source: American Hospital Association. 2021 Environmental Scan. 2020. [www.aha.org/environmentalscan](http://www.aha.org/environmentalscan).

Compared to 2019, synthetic opioid-linked deaths rose by 38 percent, cocaine-related deaths rose by 26 percent, and deaths from psychostimulants, including methamphetamine, increased by nearly 35 percent.<sup>9</sup>

Like many other health challenges, the increased mental health toll of COVID-19 has hit Black/African American and Hispanic/Latino communities the hardest. And while they experience proportionally lower rates of mental health challenges, white Americans are more likely to get treatment for mental illness.<sup>1</sup>

CDC Director Robert Redfield recently described the challenge facing communities across America: “The disruption to daily life due to the COVID-19 pandemic has hit those with substance use disorder hard. As we continue the fight to end this pandemic, it’s important to not lose sight of different groups being affected in other ways. We need to take care of people suffering from unintended consequences.”<sup>9</sup>

**Consumers Are More Willing to Engage Online.** One benefit of the forced shift toward telehealth during the pandemic has been an increased willingness to engage in telepsychiatry, with more adults using the services during the pandemic and reporting an interest in continuing telepsychiatry after the pandemic. This willingness for virtual visits has the potential to expand

access to services for areas without behavioral health providers, and investments are supporting that trend.

By the third quarter of 2020, venture capital funding for U.S. mental health start-ups had already surpassed investments in 2019.<sup>7</sup> Examples of recent mental health start-ups include Talkspace, BetterHelp, and Brightside offering online therapy, counseling, and medication plans. Other services such as Headspace and Calm focus on mindfulness, meditation, sleep stories, and relaxing music. Calm has also partnered with Kaiser Permanente to offer qualifying members free access to Calm’s content.<sup>8</sup>

***Is mental health a central component of your hospital or health system’s vision for the future? What opportunities are there to partner with other organizations to better meet future community mental health needs?***

### Social Determinants of Health

Every year in the U.S. millions of people face food insecurity, homelessness, or an inability to access medical care, sometimes simply due to lack of transportation. Experts estimate that medical care

### Gather Information: Ask Your Managers and Senior Leaders

Conducting a “mini survey” of department managers and senior leaders provides critical information to help boards reshape their strategic thinking for a post-COVID world. Boards can use the feedback to guide strategic thinking and direction and to identify critical topics for governance education.

- Ask your organization’s leaders and managers to rate how critical issues and challenges are, such as:
- Financial challenges related to COVID-19 response and recovery
- Financial challenges related to inadequate reimbursement
- Reduced patient volumes
- Concerns about community trust
- Patient health and the potential impact of deferred care on patient needs
- Expanding telehealth to meet the needs of patients and caregivers
- Ensuring cybersecurity, particularly in the face of rapid telehealth growth
- Competing with non-traditional providers such as retail clinics and online health services
- Partnerships with community organizations
- Coordination of care within the organization
- Coordination of care with other organizations and providers
- Innovation and the reimagining of the future of health care
- Investment in medical technology, including artificial intelligence
- Financing for new facilities and equipment
- Opportunities for front-line employees to innovate
- Caregiver burnout and emotional health and well-being
- Recruitment and retention of physicians and other caregivers
- Ensuring quality and patient safety
- Meeting community health needs
- Addressing social determinants of health such as housing, food insecurity, and domestic violence
- Ensuring culturally competent care
- Ensuring access to behavioral health services
- Strengthening maternal health outcomes
- Regulatory burdens
- Ensuring access to the cost of care, including pricing for standardized services
- Disaster planning and preparedness
- Ensuring stability in the supply chain
- The cost of prescription drugs

## Critical Questions Every Hospital Board Needs to be Able to Answer

Board Leadership is Essential to COVID-19 Recovery and Success

accounts for only 20 percent of “modifiable contributors” to keeping a population healthy. The remaining majority of factors are impacted by Social Determinants of Health, such as housing, healthy food, income, family and social support, and community safety.<sup>11</sup>

**Pre-Pandemic Challenges.** A Kaiser survey conducted before the COVID pandemic found that 68 percent of people living in the U.S. experienced at least one unmet social need. Further, 25 percent of those surveyed reported that concern over an unmet social need was a barrier to health.<sup>2</sup>

In that same survey before the pandemic, Kaiser patients who expressed a desire for food assistance were 3.8 times higher among Black members and 4.6 times higher among Hispanic members when compared to white respondents.<sup>2</sup>

According to Bechara Coucair, M.D., senior vice president and chief health officer at Kaiser Permanente, “The connection between unmet social needs and poor health outcomes is clear. Social needs have to be addressed at the same level of importance as physical and mental health. Access to safe and secure housing, nutritious food, reliable transportation, and meaningful interpersonal connections are essential for well-being.”<sup>2</sup>

**The Pandemic Has Exacerbated Disparities.** The sobering fact of health inequity has been spotlighted

through the experience of COVID-19 infections in the U.S. Just three months into the pandemic, data from the CDC revealed that Black and Latino people were disproportionately affected, often having three times the rates of infection as their white neighbors. This disparity was demonstrated in a widespread manner that spans the country, throughout hundreds of counties in urban, suburban and rural areas, and across all age groups.<sup>10</sup>

**It’s Worth the Investment.** Most hospital and health system missions are centered on meeting community needs. This can’t be done without addressing social needs, and payment shifts like accountable care models and Medicare Shared Savings are reflecting that.<sup>11</sup>

According to the AHA’s Futurescan report, it is projected that \$230 billion could be saved if health equity improved in the United States. A 2020 study found that every \$1 invested in community health worker interventions addressing unmet social needs results in a \$2.47 return to the average Medicaid payer.<sup>2</sup>

**Has your board and senior leadership prioritized social health? Do you know what your community’s greatest social health needs are? How does your organization prioritize meeting social health needs when compared to meeting physical and mental wellness needs in the community?**

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