



CRITICAL QUESTIONS

Every Hospital Board Needs
to be Able to Answer



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“Critical Questions Every Hospital Board Needs to be Able to Answer” was developed by The Walker Company, an Oregon-based health care consulting firm. The Walker Company provides a comprehensive array of governance development services, including governance education, resources and toolkits, board performance self-assessments, analysis of governance structures and practices, and focus group facilitation and reporting.

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Introduction

According to the American Hospital Association, there are over 2,800 nongovernment not-for-profit community hospitals in the United States, and just over 1,000 state and local government community hospitals. The nation's hospitals employ over 5.4 million people for a wide range of skill levels and are one of the largest sources of private sector jobs. Hospitals 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 aligning and integrating services across the continuum of care, but at the same time are confronting significant financial pressures as they seek to cross the chasm from a fee-for-service based system to a value-based payment system.

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.

Fiduciary: (1) of, relating to, or involving a confidence or trust; (2) held or founded in trust or confidence.

For 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 these days of economic insecurity, it is particularly important for hospital governing boards to earn and keep the public trust. In the handling of hospital finances, the oversight of hospital quality, patient care and safety, and the assessment of hospital 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. Especially now, 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; they must put the needs of the hospital first when taking responsibility for its operations; and they must abide by laws, regulations and standards of hospital operations.

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 trustee has acted improperly. They are to be taken seriously by every person accepting a position on a hospital board.

Duty of Care. When engaging in hospital business, trustees must use the same level of judgment they would use in their

own personal business activities. The tenets are mostly common sense:

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

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

Duty of Loyalty. The duty of loyalty bars trustees from using their board positions to serve themselves or their businesses. It requires that when acting in their fiduciary capacity, trustees place the interest of the hospital before all else. It demands that board members 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; and
- Able to observe total confidentiality when dealing with hospital matters.

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

To identify potential conflicts of interest, trustees and staff should annually disclose, in writing, any known financial interest with any business entity that transacts business with the hospital 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 hospital's mission, and to follow all state and national laws, corporate bylaws, rules and regulations when representing the interests of the hospital.

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

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; and
- 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 complacent and submissive. Their members do not ensure that all sides of issues are considered, or that "conventional wisdom" is challenged. Such 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. These are 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.

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 trustees 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 by-laws of the board and the mission of the hospital
- Compliance with all regulatory and reporting requirements
- Understanding of all documents governing the board and its operation (by-laws, 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

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.

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.

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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 the organization to have each trustee review these fiduciary responsibilities. This is a time in our nation when 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 hospital operations and the community's trust. There is no other way to success.

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

Too often hospital leaders develop mission, values and vision 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.

The board must ensure that the hospital has meaningful, unique, market-specific and compelling mission, values and vision statements that inspire and lead employees, physicians, trustees, volunteers and others to the highest levels of achievement.

The board must ensure that the entire hospital family, from top to bottom, sees its 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.

Finally, 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 outstanding performance.

Mission, Values and Vision - 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, recruit physicians, 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.

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 dialogue and decision-

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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 with purpose. In order to keep the mission alive it should be printed 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.

The board should take time during its board meetings for "mission moments," opportunities to reflect on some of the ways in which the hospital 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

The board of trustees faces many situations in which it has very difficult decisions to make. When making these difficult decisions, one important question should always be asked: "how will this action, activity or decision further our ability to achieve our mission?"

Finally, at the end of every meeting take 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?"

How Does Your Mission Measure Up?

Consider the following questions to determine how your hospital's mission measures up to "great mission" criteria:

- 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 purpose and value?

The Vision

The vision is a vivid description of what the hospital 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.

The vision should be inspiring, unique and visual; it should be written in a way that creates a mental image of the hospital at a future point in time. It should be enduring, and able to stand the test of time. It should be hopeful, empowering and measurable, providing purpose and focus in a dynamic, rapidly-changing environment. And 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 vision should inspire enthusiasm and commitment in every corner of the organization, articulating what the hospital's hard work and investment is seeking to achieve, and prepare leadership thinking and resources to meet future challenges. It should be powerful and empowering. Finally, the vision should encompass the "big goals" that drive strategies, objectives and action plans.

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.

Elements of a Value-Based Vision. 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 hospital 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, implement and secure new information technology, such as electronic health records, and mobile and wearable 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?

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How Does Your Vision Measure Up?

Think about the hospital's vision. How does it measure up?

- Have you defined the areas in which your future success is most critical?
- Is your vision a powerful statement of the hospital'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 hospital measure progress in achieving the vision?

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 10 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, initiatives and measurable objectives.

An Ideal Vision. An ideal vision is challenging, but at the same time realistic and attainable with diligence, commitment, and intelligent leadership. It's powerful, hopeful and empowering, and it inspires enthusiasm for the future and a commitment to achieving the hospital's mission.

An ideal vision provides purpose and focus during challenging and uncertain times. It takes into account the hospital's current and emerging challenges and opportunities, provides purpose and focus, and describes a future that has successfully dealt with them. In addition, it drives creative strategic thinking, and provides leadership with an "end point" that serves as the foundation for the hospital's strategies and 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," the aspects of personal and professional behavior 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. They serve as "cultural cornerstones," a blueprint for organizational, employee, and medical staff behavior. They are the fundamental beliefs and truisms that guide organizational behavior and decision making. They set the organization apart from its competitors, and establish its unique organizational culture.

In addition, values limit operational freedom and constrain behavior in order to ensure compliance with all laws and regulations, and set a high ethical bar. Finally, they 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, and 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.

They should be promoted at every opportunity, and become infused in the organization's behavior. One way to highlight and instill the values is to tell stories about how employees,

How Do Your Values Measure Up?

Do a quick values check. How do your hospital's 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 hospital use the values when evaluating employee performance?
- Does your hospital showcase examples of living the values?
- Does your hospital enforce its values, even when it's uncomfortable?

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physicians, volunteers, trustees and others exemplify the hospital's values in their work. Finally, demonstrating the values should be celebrated at employee meetings, board meetings, community meetings and other venues.

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

To ensure success in living their values and achieving their mission and vision, governing boards can take several simple steps.

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

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, values and vision 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 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, values and vision 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, values and vision course.