

The North Carolina Trustee

For North Carolina Hospital, Health System and Care Provider Governing Board Members

Fall 2018

BOARDROOM BASICS

Effective Boards Make a Difference

According to Webster's Dictionary, the definition of effective is "producing a decided, decisive, or desired effect." Do you know what the desired effect of your board is? If your board has defined your "desired effect," you are likely one step ahead of many hospital boards. But knowing your board's purpose is only the first step. To be an effective board, you must measure your performance to be confident you are fulfilling your purpose, understand what you are doing well, and identify areas with opportunity for improvement.

Boards have been overseeing hospitals for two and a half centuries. The concept of hospital trustee leadership stretches back to 1751, when a group of hospital community leaders got together, had a vision, raised some money and built America's first real hospital. But the issues on today's board agendas are more complex today than they were in 1751 when the first board was established at Pennsylvania Hospital.

Even when compared to the 1960s the issues are bigger. In 1965 the estimated cost of Medicare was \$9 billion. By 1990, the cost was \$67 billion, and in 2017, benefit payments amounted to \$702 billion.^{1,2} Health care spending as a percent of GDP has grown significantly as well, up from 4.7 percent in 1960, to a projected 18.2 percent for 2018.³ And technology advances are beyond what the first boards ever could have imagined. In 1955 there were only 250 computers in use throughout the world, and they were so big most wouldn't fit into a typical room in a home.⁴ In 2016, 90 percent of U.S. households had at least one smartphone,

desktop/laptop computer, tablet or other streaming media device and the typical household had five of these.⁵

As the environment changes and the scope of the issues change, hospital boards' governance practices and structures should also change. What is required of boards to be effective today is very different than it was in Ben Franklin's day, yet the practices and purpose of many boards have not changed over time.

Restoring Public Trust and Confidence

Hospitals today are required to be more accountable and more transparent. They must also be more aware about protecting their not-for-profit status. The board's responsibility for accountability and effectiveness in these areas stretches well beyond board bylaws, articles of incorporation and budget reviews. It requires

understanding the board's role in achieving the hospital's mission, vision and values, and its service to the community. It requires the board's confidence in answering this critical question: "If our board didn't exist, would it make a difference?"

What is Accountability? Accountability is one of the most often used but least understood words in health care. The concept is regularly used by many who are affected by health care services, and by many health care delivery organizations. Health care organizations are accountable for a number of activities, including understanding what the community wants and needs from the hospital; responding effectively to the needs of the community and key stakeholders; measuring and evaluating the hospital's performance in key areas, such as quality, efficiency and finance; improving the hospital's performance on a continuous basis; and communicating the hospital's performance to key stakeholders and the general community.

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NCHA NOTEBOOK

During September's hurricane and flooding, hospitals and health systems across the state once again demonstrated their tremendous value as the destination of hope for our communities and the center of gravity for local sustainability. Although NCHA was not on the front lines during this storm, our team worked hard to stay connected and responsive to member needs, to help coordinate supplies and support, and, through our Foundation and with the assistance of our General Assembly and Governor, to raise funds to support our members and their employees in rebuilding efforts. Some of these are highlighted below.

Save the Dates

Winter Meeting

Raleigh Marriott Crabtree Valley
February 20-21, 2019

Summer Meeting

Pinehurst Resort
July 17-19, 2019

General Assembly Returns to Allocate Money for Hurricane Relief

Earlier this month, Governor Cooper signed into law a disaster relief bill developed by the NC General Assembly that provides \$500,000 in financial assistance for community hospitals located in counties declared disaster areas related to Hurricane Florence. NCHA advocated for the funding, which is designated to offset the cost of increased nursing and other staffing expenses related to the hurricane and may also be used to assist hospitals with other storm-related relief. These funds will be allocated to the North Carolina Hospital Foundation, the 501(c)(3) affiliate of NCHA, for administration and award to qualifying hospitals. For more details, see NCHA's [press release](#).

Fund Established to Assist NC Healthcare Workers Affected by Florence

The North Carolina Hospital Foundation also has established a disaster relief fund that has raised \$229,000 to date to support North Carolina healthcare workers who suffered significant property loss to their homes during Hurricane Florence and the subsequent flooding. For more information and to donate, visit <https://www.ncha.org/disasterrelieffund>. UNC Football also is supporting NCHA's Disaster Relief Fund by donating a portion of all tickets to the Nov. 3 UNC v. Georgia Tech game that are purchased online [here](#).

NCHA Supports Staffing Needs

In the aftermath of Hurricane Florence, NCHA set up an Emergency Staffing Coordination Team to support critical staffing needs at many of the affected hospitals. The team developed a process for a hospital-to-hospital staffing collective that was successful in matching 75 volunteers from unaffected hospitals and healthcare systems around the state for short-term placements in some of our hardest hit member hospitals. NCHA coordinate support for longer term needs through [Qualivis](#), our staffing program.

In other news...

State Treasurer Dale Folwell has advanced his proposal to move the State Health Plan to reference pricing based on Medicare. Information about his proposal can be found [here](#). NCHA and our provider partners have spent several months attempting to influence this process through traditional diplomatic channels. Mr. Folwell has responded with disinterest and hostility towards these overtures and is instead engaging in a public campaign to malign hospitals as part of a strategy to radically alter the way providers are reimbursed in our state. NCHA and our provider partners will remain resolute and committed to working with the Treasurer or our General Assembly to develop a plan that serves the best interests of all North Carolinians. See NCHA's latest response to the treasurer [here](#).

Do you have suggestions for future issues of *The North Carolina Trustee*?

Our goal is to provide you with the information and knowledge you need to lead your hospitals in today's rapidly changing environment. Tell us what you think and what topics you would like to see in future issues. **Write or call:** Leslie Peterson, Vice President, Education Services, North Carolina Healthcare Association, 2400 Weston Parkway Cary, NC 27519, 919-677-4247 or lpeterson@ncha.org.

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Why Evaluate Accountability? Hospitals and health care organizations are responsible for demonstrating and explaining their “value” to interested and affected stakeholders. The hospital exists for the public’s good and acts in the public interest as a steward and coordinator of

vital community resources. The community and those who utilize the organization’s resources place their faith and confidence not only in the institution, but also in those who manage its resources. Lawmakers, regulators, and communities expect that the individuals responsible for the hospital will act in the best interests of

the community and the people who need its services. It is also expected that the organization and those affiliated with it will provide safe, effective, high quality care, and will continually monitor and manage to improve all aspects of care that it provides. Not only are these

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Areas of Governance Effectiveness for Consideration

The following list includes suggested areas for evaluating your board’s effectiveness in five key areas. While your evaluation criteria are likely to be more comprehensive, these examples provide some ideas of ways to “take the pulse” of your organization’s accountability.

Organizational Ethics and Core Values

- The organization’s mission describes our commitment to the community, and is used to evaluate key decisions facing the organization
- Compliance with our ethical values and principles is a key component of determining physician privileges and when evaluating employees
- Employees and clinical staff understand and follow organizational policies and procedures, which emphasize respect for the individual patient, their values and their privacy
- Our governing body and leadership have implemented a plan to ensure compliance with applicable state, federal and local regulatory and statutory requirements
- Our organization has a process to allow patients, employees and physicians to confidentially bring concerns about ethical issues to the attention of management

Governance and Leadership

- The board formally assesses various stakeholders’ needs and interests when developing goals
- The board regularly evaluates the organization’s performance in achieving strategic goals
- The board evaluates the CEO using performance measures specifically tied to achievement of strategic objectives
- The board approves clear financial objectives, and regularly monitors the organization’s progress

Quality of Care

- The organization has a board-approved process for improving patient safety and reducing errors
- The board, management, and clinical staff monitor and act upon issues impacting patient safety
- There is a process for identifying and reporting adverse events
- The organization formally assesses patients’ perceptions of care
- The organization has clearly-defined and measurable quality improvement targets, and consistently evaluates attainment of the targets

Community Health and Benefit

- The organization conducts a community needs assessment
- The governing body, leadership and clinical leaders jointly develop community health improvement plans and targets for improvement
- Organizational leaders regularly meet with community partners
- CEO performance objectives include a focus on improving community health
- The organization has a formal process for measuring community benefit

Communication

- The organization formally reports its accomplishments in achieving its mission, vision, and goals to employees, affiliates, interested stakeholders and the community
- The organization’s community benefit report describes financial and clinical performance, patients’ perception of care, quality care, and the organization’s contribution to the community

GOVERNANCE INSIGHTS

Integrating Baldrige Concepts into Everyday Governance

Changing payment systems and increased emphasis on performance have intensified hospitals' focus on value in recent years. To be successful, trustees must adapt to the demands for value and performance excellence in a complex and uncertain health care environment. The Baldrige Performance Excellence Program can help boards of trustees on this journey.

The Baldrige Performance Excellence Program is a public-private partnership dedicated to helping organizations improve and succeed in a competitive global market by addressing three questions: "Is your organization doing as well as it could? How do you know? What and how should your organization improve or change?"

When a guest at a Baylor Health Care System board quality meeting observed that committee members "talked about all the good stuff, but never, ever talked about what's not working well," Jerri Garison, president, Baylor Scott & White Medical Center – Plano and Baylor Scott & White Medical Center – Carrollton, knew they needed to begin the Baldrige performance improvement process. Today, Baylor Scott & White – Plano (BSW – Plano) has received both local and national recognition for excellence.

The Excellence Framework

A cornerstone of the Baldrige program is its Excellence Framework. The framework provides criteria and questions that represent leadership and management best practices for promoting performance excellence.

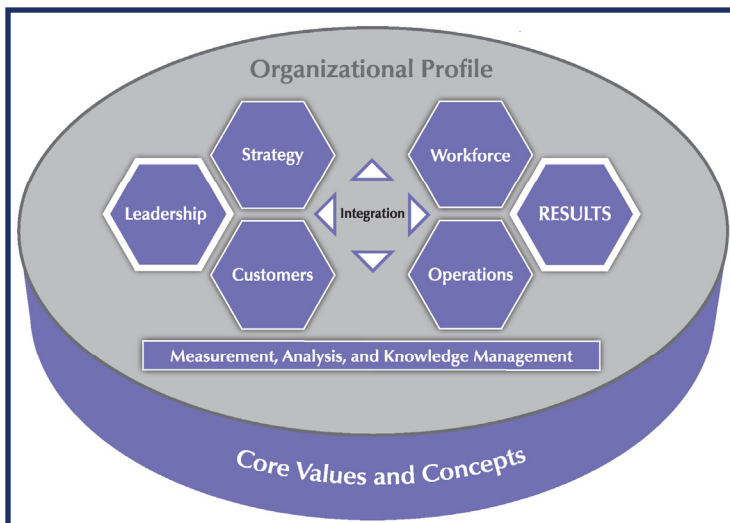
To help strengthen participating organizations' performance, Baldrige identifies its three roles as:¹

- Improving organizational processes, capabilities, and results;
- Facilitating communication and sharing of best practices among U.S. organizations; and
- Providing a working tool for understanding and managing organizational performance, guiding strategic thinking, and providing learning opportunities.

The Baldrige Influence on Governing Excellence

Strong leadership is a requirement for achieving performance excellence in the Baldrige performance system. The program's governance criteria require the board to define how its organization ensures responsible governance. Many of the organizations beginning their Baldrige journey find that they don't know what they don't know until they get the feedback the program provides. As Garison observed, it's not until you start the Baldrige process and begin comparing yourself to others nationally that you begin to see your flaws.

Methodist Healthcare System in San Antonio, TX, found opportunities to strengthen its governance as it processed the Baldrige program's many "how" questions. As a result, Methodist Healthcare System established a formal Governance Council, which meets on a regular basis to plan for improved governance. The council's work is credited with driving a growing list of improvements. Among them has been the streamlining of a 50-person system-wide Community Board to a smaller, more efficient and effective board. Today, Methodist Healthcare System president and CEO Jaime Wesolowski characterizes the board's leadership and governance as a recognized strength for the organization.



Since 2005, health care organizations have represented more than 50 percent of the applicants for the Baldrige Award. Baldrige hospitals and health systems are faster to display five-year performance improvement.²

Ensuring Responsible Governance

Organizations pursuing Baldrige recognition must demonstrate how they carry out their governance in eight areas of responsibility. They must answer questions such as:^{1,3}

- How do you govern your organization and fulfill your societal responsibilities?

Source: Baldrige Excellence Framework. www.nist.gov/baldrige

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- How does your organization review and achieve the following...?
 - Accountability for senior leaders' actions
 - Accountability for strategic plans
 - Fiscal accountability
 - Transparency in operations
 - Selection of governance board members and disclosure policies for them, as appropriate
 - Independence and effectiveness of internal and external audits
 - Protection of stakeholder and stockholder interests, as appropriate
 - Succession planning for senior leaders
- What are your results for governance accountability?
- What are your key current findings and trends in key measures or indicators of governance and internal and external fiscal accountability, as appropriate?

New Perspectives, New Ways of Thinking

The foundation of the Baldrige Health Care Criteria are interrelated core values and concepts. They represent beliefs and behaviors that are found embedded in high-performing organizations, including¹ a systems perspective; visionary leadership-focused excellence; valuing people; organizational learning and agility; focus on success; managing for innovation; management by fact; societal responsibility and community health; ethics and transparency; and delivering value and results.

Adopting and integrating these values into an organization can be a catalyst for profound transformation, as they have been

"How" Questions Stimulate the Right Board Thinking

The following questions are just a sample of the types of questions boards can expect from the Baldrige program. Notably, "who", "what", "when", "where" and "why" questions are mostly absent. These types of questions are fact seeking. "How" questions on the other hand, are procedural. They are designed to help the board assess the existence and effectiveness of the organization's processes and procedures, and whether they are effective at driving improvement.^{1,3}

- How does your organization evaluate the performance of your senior leaders?
- How do senior leaders use performance evaluations to advance their development and improve their own effectiveness as leaders?
- How does the board use performance evaluations to advance the effectiveness of the board?
- How does the board use performance evaluations to improve the leadership system?
- How do you anticipate and address public concerns with your services and operations?
- How does your leadership promote and ensure ethical behavior?
- How do you consider societal well-being and benefit as part of your strategy and daily operations?
- How do you actively support and strengthen your key communities?

for BSW – Plano. Garison observed that "once you're into the Baldrige program, you talk a different language. *You're always trying to improve and compare to others, to learn best practices, to reach out to other industries and to innovate. We never even talked about innovation before, and that's something that has really, really helped us.* It's just an incredible journey." She further noted, "The Baldrige program has helped us to think outside the scope of the hospital. If you look at your community partners and all your stakeholders, you no longer just think about the hospital. You think about the doctors, you think about a clinic in an area that is underserved, and about keeping people out of the hospital, about population health."

The Baldrige Journey

Organizations that have applied for the Baldrige Award often refer to it as an experience or journey. BSW – Plano began its Baldrige journey by talking about best practices at other Baldrige organizations and learning from them. The next step was to educate leaders about the Baldrige program, followed by reviewing the criteria for governance. "It's a slow

process. You can't just say, "We're going to do Baldrige, here we go." You have to understand the end game," noted Garison.

Many hospitals and health systems use the Excellence Framework and Criteria to improve without ever applying for examination and the possibility of winning a Baldrige Award. Others apply multiple times, learning more with each evaluation, persisting with their improvements until they succeed in winning the award and recognition.

Experiencing the Baldrige process as a journey is true for the Methodist Healthcare System. "We say it all the time," noted Wesolowski. "This is not a project. This is the way we do it. This is Methodist Excellence and it's not going away."

Sources and More Information

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LEADERSHIP PERSPECTIVES

Hospital Influencer: Establishing Credibility and Impacting Results

In today's world of social media, "influencers" wield significant power in shaping opinions. Having established their credibility, and gathering thousands of followers on their social media sites, major brands now rely on social media influencers to build customer relationships and influence sales results. Similarly, the board is positioned to influence hospital and health system performance. Credibility is built on benchmarks, best practices and transparency. Government regulators, ratings agencies, and other stakeholders expect the board to exert its influence over the organization's performance results.

Quality of care should top the list of board priorities, but it's not the only area where the board is expected to influence hospital and health system results. Finance, strategy, community perceptions, advocacy, partnerships, and organizational culture are other critical areas where the board's role in setting policy, providing consultation and conducting oversight can influence higher performance.

Quality

In 2009, a Harvard survey reported that half of hospital board chairs indicated that their boards didn't include clinical quality as one of their top two priorities. However, the authors of the survey noted a link between those boards that did prioritize quality with hospitals that performed well on quality measures.¹

A new study published in August 2015 confirmed board influence in two areas significant to hospital quality performance. First, the study reported that when boards pay more attention to clinical quality, their management more carefully monitors quality performance. Boards of higher performing hospitals were found to spend a greater percentage of board meeting time discussing quality and management performance. Secondly, the study found that when boards effectively use clinical quality metrics, management staff performs better in setting targets and managing operations. In this finding, CEO compensation was linked with quality performance, and management was able to better balance metrics set by the board with those set by the government and regulations.^{2,3}

Financial Performance

The board is responsible for the financial success and long-term viability of the hospital or health system. It has a responsibility to protect and ensure the cost-effective utilization of resources, and the establishment of both long-range and short-range financial plans. The board's financial planning direction and decisions should flow from its long-range strategic planning. How well the board is equipped to plan and carry out its governance

accountabilities is a factor that ratings agencies consider. For example, Moody's rating methodology for not-for-profit hospitals and health systems includes five key factors: 1) market position; 2) operating performance; 3) balance sheet and capital plan; 4) governance and management; and 5) debt structure and legal covenants. Considered by Moody's to be the core of their non-quantitative factors, their assessment of governance and management performance is particularly important.⁴ Refer to the sidebar *Governance Factors Considered in Moody's Rating Methodology* for more detail about Moody's governance measures.

Strategic Focus

Building and maintaining focused, accountable and visionary trustee leadership is one of the principal challenges for hospitals in today's turbulent environment. Hospital boards face difficult choices in a time of heavy governmental regulation, inadequate reimbursement, increasing competition, shifting community needs and consumer demand. 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. Strategic focus and planning are an on-going process of examining the market, forces and trends, and other environmental data and information. It's an assessment that helps the board understand evolving dynamics, and to reshape or fine-tune the hospital's strategic direction in response.

In the study "Hospital Boards and Hospital Strategic Focus: The Impact of Board Involvement in Strategic Decision Making," researchers noted that the traditional role of hospital boards has been to monitor executive management actions and serve as advisors. It was further observed that if boards were not well-informed on issues or were not consulted,

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Governance Factors Considered in Moody's Rating Methodology

One of Moody's five components in its rating methodology for not-for-profit hospitals and health systems includes an assessment of governance and management performance. Key factors considered by Moody's include the following:⁴

- **Composition of board and senior management.** Moody's considers certain board attributes to be governance strengths, including a mix of seasoned board members who can contribute institutional history and continuity with new board members who may contribute new perspectives. Another strong attribute is the professional diversity and experience of the board, including expertise in areas of risk management, compliance, financial statements, multi-year financial and capital plans, and investment strategies. Moody's also takes into consideration the strength of senior management, including the independent financial expertise and mastery of the chief financial officer and vice president, as well as leadership's professional diversity.
- **External disclosures and internal controls.** Recognizing the critical importance of external and internal controls, Moody's assesses many related factors, including but not limited to board-approved financial policies, detailed disclosures and transparency, conduct of the chief executive officer's performance evaluation, internal audit reporting to the board, well-defined board committee structure and responsibilities, and trustee term limits.
- **Integrated short and long-range planning.** Moody's uses multiple criteria to assess board and management ability to manage strategic, capital and financial plans to achieve the organization's long-term goals. Among other factors, accurate forecasting and use of best practices are considered strong governance attributes.
- **Ongoing self-assessment and benchmarking.** Moody's assessment of governance and management takes into consideration the factors that give them a good indication of how the board assesses the organization's performance and market position. It also assesses contingency planning, benchmarking against best practices, reviews of key performance indicators, leadership performance evaluations, and market or environmental awareness and responsiveness.
- **Government and Stakeholder Relations.** Recognizing the impact of laws, regulations and policies on hospitals' operational and financial performance, Moody's assessments take into consideration the organization's relationships with associations that provide hospital representation and advocacy, as well as supplying the organization with information regarding the implications of potential government and regulatory actions.

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the board provided little value. However, the study revealed that when boards had an early and more participatory role in decision-making, the organization's strategic goals had greater focus on external issues. The board's role in those circumstances included raising and clarifying issues and generating alternatives. The range of board member expertise combined with board engagement resulted in even greater impact, a particularly critical consideration in today's complex environment.⁵

Community Health

Improving the health of the community is the driving mission for most, if not all, not-

for-profit hospitals. The shift from a volume-based, fee-for-service payment system to a system based on value is a key driver of the attention now focused on community health. Multiple factors influence the health of a community's population, many of which are outside the hospital's control, or may exceed the hospital's resources. This reality is prompting many health care organizations to consider the partnerships or collaborations necessary to succeed. Trustees should recognize that they are an important network and resource for potential partnerships and collaborations, and that acting as ambassadors for a healthier community is a valuable role for board members.

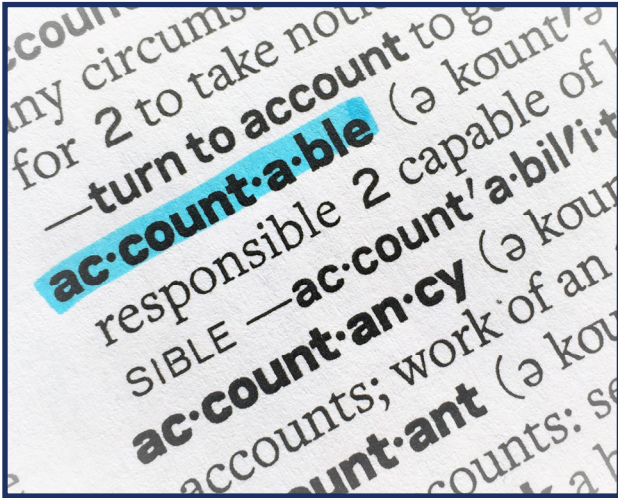
Culture

Culture is the true reflection of what the hospital or health system values and is evident in everything it does. The board sets the tone for an organizational culture that expects and values excellence, and that has a strong ethical center. Board members should also recognize that the culture needs to be supported with leadership and resources that will drive the organization to success. The values and ethics set by the board should be consistently applied in governance decisions, and should set the example in the board's relationships with stakeholders, including employees, physicians, vendors, partners and others.

The board must ensure the CEO and executive team are well-aligned with the culture the board envisions and that they have the leadership capacity to make any changes needed to achieve cultural excellence. Once expectations are set, financial incentives that are linked to performance can be set. The board should establish and periodically review indicators of the hospital or health system's culture, which may include employee satisfaction, medical staff satisfaction, employee turnover, patient satisfaction, complaints, and audit findings.⁶

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2. Thomas C. Tsai, Ashish K. Jha, Atul A. Gawande, Robert S. Huckman, Nicolas Bloom and Raffaella Sadun. Hospital Board and Management Practices Are Strongly Related to Hospital Performance on Clinical Quality Metrics. *Health Affairs*, 34, no.8 (2015): 1304-1311.
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expectations, they are fiduciary responsibilities of the board.

Building Accountability-Based Thinking Throughout the Organization.

In addition to serving as a critical community health care resource, hospitals are one of the community's primary economic cornerstones, functioning as an employer, a purchaser of goods and services, and a supplier of services to practitioners and other health care providers. The individuals, communities, and organizations who are affected by the hospital and who have an interest in its accountability are wide-ranging. They include purchasers of health care services, the public, individual patients, advocacy groups, federal, state and local regulators, health policy makers, financial and lending institutions, practitioners, hospital staff and employees, and the media. Although each stakeholder group may have a different priority or interest, all are interested in how effectively the organization is able to perform its functions.

Measuring accountability should not simply be an exercise in compiling numerical scores or "report cards." A

meaningful accountability assessment is only truly useful if it builds new awareness of organizational risks and opportunities, opens doors to new ways of thinking about service to patients, families, partners, stakeholders and the community, and creates new strategies for improving organizational responsiveness, integrity and mission-based performance.

Holding the Board Accountable

Conducting an evaluation of the board's effectiveness is an opportunity to engage trustees in evaluating what the board does well, and where it needs to improve. A board evaluation should help the board to collectively decide where it should focus its efforts to ensure it is as effective as

possible. Perhaps the board needs to focus its efforts more in one area, and less in another. Or perhaps the board's definition of "effective" has changed. The only way to ensure that the board is doing its job is to clearly define what the board's job is, and ensure that the board's actions are aligned with that mutually agreed upon job description.

To be an effective board, you must measure your performance to be confident you are fulfilling your purpose, understand what you are doing well, and identify areas with opportunity for improvement.

Assessing Your Performance

Accountability is not an end-point. It is a continual, dynamic process of discovering ways to define and measure stakeholder expectations, and measure organizational performance in meeting them.

Every organization will likely evaluate the effectiveness of their board of trustees differently, depending on their mutually agreed upon definition of the board's role and what it means for the board to be

"effective." If these aren't already clear, the first step should be to determine what the board's priorities are, and what it should be held accountable for. Once established, the board should then evaluate its performance in those key areas, and use the evaluation results to facilitate discussion and new directions, prioritize board activities, and promote and institutionalize change. Finally, the board should reassess its performance regularly, using previous assessments as benchmarks to track progress, adjusting course as needed.

Although every organization's accountability assessment may vary, key categories for consideration may include:

- Organizational ethics and core values;
- Governance and leadership;
- Quality of care;
- Community health and benefit; and
- Communication, both internally and externally.

Holding your board accountable for its effectiveness is critical not only for board performance, but for the organization's overall success. The board sets the tone for the entire organization, and if accountability is not important for organizational leadership, you can bet it won't be a priority for hospital employees and staff either.

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