



Hospital Trustees Navigate An Evolving Healthcare Environment

Effective governance of nonprofit and for-profit institutions has never been more important. Accounting fraud at several large corporations a number of years back kicked off a rash of activity aimed at preventing a repeat of those events. Ever since, organizations across the country – both for profit and nonprofit – have been working to improve their governance practices. As a result, trustees have become increasingly aware of their importance in the effective management of the institutions they serve and their responsibility to the stakeholders and shareholders who entrust them with leadership.

Beyond trust, board members also play an important part in maintaining strong, vital institutions. By lending their time and expertise, trustees help make the organizations they serve more effective while remaining accountable to their shareholders (in the corporate world) and their stakeholders (in the nonprofit realm). Successful boards are a primary ingredient in organizations' successes and, when they fail, at least partly culpable for their demise.

Key Hospital Trustee Responsibilities

Unlike corporate boards, which have a direct and clear responsibility to their shareholders, nonprofit boards are accountable to many stakeholders, which for hospitals include patients and their families, contributors, employees, and the community.¹ For hospitals, trustees provide CEOs and top management with expertise that allows them to stay true to their charitable missions while striving for positive financial margins – a balancing act that is not always easy to maintain. Depending on the demographics of the communities served and other factors, the issues facing hospital boards can vary greatly, yet hospital trustees have several fundamental responsibilities that are uniform across institutions.

Select, Evaluate and Support the CEO

Hospital trustees serve as a layer of support for the CEO, the importance of which in today's increasingly complex health arena cannot be overstated. Apart from their role in supporting the CEO, board members also have the crucial job of selecting and evaluating the CEO.

Given the enormous complexity of delivering healthcare, hospitals require some of the most highly skilled, sophisticated leadership available. Whereas not too long ago CEOs typically led a single community hospital with a few hundred staffed beds and several hundred employees, it is not uncommon today for chief executives to lead systems of community hospitals with several thousand staffed beds and tens of thousands of employees. Related to CEO recruitment, trustees are charged with setting CEO compensation at a competitive rate to help ensure we all benefit from having top-notch medical facilities – and the related medical breakthroughs – that top-notch leadership creates.

Fiduciary Responsibilities

Fiduciary responsibilities, such as oversight and management of charitable assets, are another key trustee duty. Yet simply overseeing charitable assets is not sufficient. Hospital board members have the legal obligation to ensure that decisions about how to use assets further the organization's public mission and do not result in personal gain.²



Tied to the notion of fiduciary responsibility is the trustee's role in strategic planning. Having the right strategy with measurable goals is crucial to any organization's success. Hospital trustees strive to seize upon opportunities to further the hospital's mission and address community health needs. Board members must simultaneously remain keenly aware of the healthcare landscape and any threats to the hospital's ability to serve at peak capacity.

Increased Focus on Quality Improvement

While most hospital trustees do not hail from a clinical background, the hospital's ability to provide the highest level of care to patients is always front and center when board members are making decisions. Quality improvement has always been a part of hospitals' day-to-day operations, yet in recent years board members have gotten even more involved in the quality arena. Whereas in the past board members spent the bulk of their time addressing financial and business matters, today's board members are equally engaged in tracking clinical performance and staying abreast of the latest quality initiatives.³

Credibility as External Advocates

Not only is it crucial for trustees to be aware of what is happening within the institution they serve, they also must be attuned to the external environment, including public policy developments affecting healthcare. Having a sense of threats to hospitals' nonprofit tax status, the financial effects of the rising ranks of the uninsured on hospital bottom lines, current quality initiatives, workforce issues, and the latest developments in national healthcare reform can bolster a trustee's ability to make decisions for the organization it is serving.

Being aware of health policy issues is also helpful when hospital trustees advocate for hospitals in the political realm. Staying up-to-date on public policy that will affect hospitals, and the resulting ramifications for the surrounding community, can empower trustees to educate political leaders on key legislation, a particularly valuable role given that lawmakers often view trustees as credible leaders in the community.



Current and Future Issues for Hospital Trustees

As hospitals continue the trend towards consolidation into larger systems, the responsibilities and demands placed upon hospital trustees will only intensify. Currently, over half of all hospitals in the U.S. are part of healthcare systems and the expectation is that this trend will continue to grow. Apart from the trend towards consolidation, many other factors are requiring trustees to be equipped with an increasingly sophisticated understanding of the healthcare sector.

The Heat is On

Scrutiny of nonprofit healthcare organizations and their governance practices in particular has never been more intense. Among the groups examining hospitals' governance practices are the Internal Revenue Service, the Government Accountability Office, the U.S. Senate Finance Committee, bond rating agencies, and various state legislatures and attorneys general.⁵

Part of the demand for enhanced transparency and public accountability in the nonprofit world can be traced back to a number of high profile corporate and accounting scandals that occurred over the past decade at for-profit companies such as Enron and WorldCom. The Sarbanes-Oxley Act of 2002, which primarily applies to publicly traded companies, created new governance standards and strengthened board members' roles in overseeing financial transactions and auditing procedures. Many hospital boards have voluntarily adopted provisions from the Sarbanes-Oxley Act, yet the pressure is still on from many outside groups to enforce even more stringent requirements upon hospitals.

Heightened Standards

Another issue on the horizon for hospital boards is certification of trustees. As calls to strengthen governance in publicly held companies and nonprofits have intensified, some states and hospital trade associations have developed certification standards for hospital trustees. Since 2006, hospital associations in West Virginia, Tennessee, Nebraska, Minnesota and Georgia have adopted voluntary certification for trustees.⁶ In New Jersey, where nine hospitals have closed and six have filed for bankruptcy in the past two years, a recently passed law requires hospital trustees to receive one full day of trustee education.⁷

Increasing Board Diversity

Shifting demographics are resulting in an increasingly diverse population, prompting hospitals to consider new ways to effectively and sensitively serve different patient populations. As board members look around the table, it has become clear that the composition of many boards no longer reflects the communities they serve. Yet hospital boards recognize that having a diverse group of trustees helps assure that different viewpoints are heard, public trust is maintained and the needs of the community are met.⁸

In their quest to achieve greater ethnic, racial and gender diversity, many boards have found that the initial pool of candidates they are considering is often the same pool of candidates being recruited by other nonprofit organizations and for-profit companies. Hospital

boards will have to deliberately focus on personal networking and outreach efforts as they seek to ensure that governing bodies reflect the communities they serve.⁹

Conclusion

Board members often choose to serve on hospital boards because they find the experience personally rewarding. Yet the job they perform is no cakewalk. The healthcare landscape that trustees are being asked to navigate is evolving and becoming more complex by the minute. From the economy's effect on hospitals' bottom lines to tracking the implications of national healthcare reform, trustees must arrive at the boardroom with a sophisticated understanding of the issues. At the same time, trustees need to walk the line between supporting the CEO while also remaining sufficiently independent from the CEO and top leadership.

The value that an informed, engaged board member brings to the hospital and the community it serves cannot be overstated. Particularly as demands for public accountability and transparency have increased, finding qualified trustees with diverse backgrounds and competencies has never been more vital. Hospitals that continue to succeed in recruiting and retaining the best trustee candidates will reap the benefits of not just stronger bottom lines and improved patient satisfaction, but also a renewed ability to demonstrate that the hospital board is reflective of and accountable to the community it serves.

To support hospitals in their efforts to effectively utilize their boards, The Center for Health Affairs is launching a new resource designed especially for hospital trustees. The Hospital Trustee Toolkit is an online collection of materials that cover topics relevant to trustees. Part of the Toolkit is a curriculum designed to provide a logical pathway through the materials, building a knowledge base across a wide variety of topics. The Toolkit will soon be available on the CHA Web site at www.chanet.org.

Endnotes

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