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Nonprofit Community Health System Board Engagement in CEO and Board Evaluation

By Lawrence Prybil, PhD

The demand for more accountability, greater transparency, and better performance by the boards that govern our nation's investor-owned and nonprofit organizations is growing at the federal, state, and local levels. This heightened interest in the performance of nonprofit organizations and their governing boards has stimulated serious examination of governance practices.

Except for requirements established by state statutes, the Internal Revenue Service, and The Joint Commission, formal standards for governance of nonprofit health care organizations have not been adopted in the United States. However, in recent years substantial efforts have been made by voluntary commissions, panels, and others (eg, the American Governance and Leadership Group, The Governance Institute, and the National Center for Healthcare Leadership) to describe good governance practices and to provide guidance for boards and chief executive officers (CEOs) to consider as benchmarks in evaluating and improving governance performance.

The recent emergence of community-based health networks or systems has transformed the health care delivery environment in the United States. In various forms – from loose affiliations to highly integrated systems with centralized governance and management – these community-based networks or systems encompass a substantial and growing proportion of the nation's hospitals and provide a considerable volume of inpatient and outpatient services.

The governing board of a nonprofit hospital or health care system is legally and morally responsible for the organization, its operations, and the services it provides. The board serves as the steward of the organization – its mission, its assets, and its integrity. The basic duties of the board include:

1. Establishing, preserving, and reshaping the organization's mission as necessary.
2. Setting the organization's overall direction by assessing the environment, adopting a strategic plan, and monitoring the organization's progress toward its goals.
3. Setting quality measures and standards and assessing the organization's performance in relation to them.
4. Adopting operating and capital budgets and exercising financial stewardship.
5. Ensuring that the organization's charitable and community benefit obligations are met.
6. Ensuring that the organization is well managed and complies with applicable laws and regulations.
7. Appointing CEOs, setting expectations for them, and evaluating their performance objectively and regularly.
8. Ensuring that the board has the collective knowledge, skills, and commitment to do its job properly and that board self-evaluation is performed objectively and regularly.

While the body of knowledge regarding governance in general has expanded substantially in recent years, there is relatively little information about governing boards and governance practices in community-based health care systems. This fact – in combination with the heightened interest in the duties and performance of governing boards and advances in formulating benchmarks of good governance – provided the impetus for a study of governance in community health systems.

Study of Governance in Community Health Systems: An Overview

The purpose of this study was to examine the structures, selected practices, and cultures of community

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health system governing boards and to compare them with contemporary benchmarks of good governance. The intent was to identify areas where system governance can be improved, and to provide helpful insights for systems' CEOs and board leaders to assess and enhance board effectiveness. For the purposes of the study, "community health systems" were defined as: *"Nonprofit healthcare organizations that (1) operate two or more general-acute and/or critical access hospitals and other healthcare programs in a single, contiguous geographic area and (2) have a chief executive officer and a system-level board of directors who provide governance oversight over all of these institutions and programs."*

The study was designed in 3 phases.

- **Phase I:** Identify a set of nonprofit community health systems that meet the definition, and build a "Community Health System Database."
- **Phase II:** Conduct a survey of system CEOs to: 1) verify that their systems meet the definition; 2) obtain the CEOs' perspectives on several aspects of their boards' structures, practices, and cultures; and 3) compare the findings to current benchmarks of good governance, and prepare a report.
- **Phase III:** Make on-site visits to a subset of the systems to conduct in-depth interviews with CEOs and board leaders.

After pretesting with several CEOs, a survey was mailed to 210 CEOs of community health systems via US Postal Service Priority Mail in February, 2007. The survey questions were limited to those the team believed could be answered accurately by CEOs without extensive investigation. A follow-up mailing sent to nonrespondents in March, 2007, offered the CEOs the option of completing the survey electronically. Follow-up phone calls were made in April and June of 2007 to encourage study participation.

The final study population of 201 nonprofit community health systems included 131 independent organizations (65%) and 70 organizations that were part of larger regional or national organizations (35%). (The 9 CEOs whose systems did not meet the definition of "community health system" were excluded.) The number of hospitals in these systems ranged from 2 to 9, with an overall average of 3.5 general acute and critical access hospitals per system. Usable survey forms were completed and returned by 123 systems (61%). Survey data were analyzed in the fall of 2007 and an initial report was published in February of 2008. A summary of the findings follows.

Summary of Findings Regarding CEO and Board Evaluation:

Evaluating the CEO's performance fairly, objectively, and regularly is beneficial for the CEO, the board, and the organization as a whole, and has become accepted as a fundamental benchmark of good governance. The survey data showed that performance expectations are established for over 90% of the CEOs who participated in this survey, either by their community health system board or – for those with parent organizations – at the corporate level. As expected, 100% of the CEOs reported that *financial targets* were regularly included in their performance expectations.

Responses in other critical areas were surprising in a positive sense. Monitoring and evaluating the quality of patient care and ensuring safety of patients, staff, and visitors is one of the governing board's most important responsibilities. Close to 99% of the CEOs surveyed reported that patient quality and safety targets were regularly included in their performance expectations. Leadership and team building targets were included in 68.2% of CEOs' performance expectations, with those who head independent systems reporting 70.6% compared with 60% of those who head systems that are part of parent organizations. Establishing clear expectations for the CEO regarding *community benefit programs* is a good governance practice. Ninety percent of the CEOs who lead systems that are part of parent organizations reported performance targets in this area compared with only 49% of the CEOs of independent systems – a statistically significant difference. It is possible that the parent corporations encourage or require their subsidiary system boards to establish specific expectations for their CEOs in this important area.

More than 90% of the CEOs reported that their community health system board or parent organization formally evaluates their actual performance in relation to the established targets on a regular basis – 77.5% annually and 18.9% every 2 years. When asked their opinions about the effectiveness of the CEO evaluation process currently in place, 95% of the CEOs of systems that are part of parent organizations perceived that the performance evaluation process was fair and effective compared with only 66% of CEOs of independent systems. Most surprising was the finding that, although 90.2% of CEOs reported that their community health systems' boards engaged in formal assessments of how well they carry out their own duties on a regular basis, only 55.9% reported that the findings were employed to make changes intended to improve their boards' structures, practices, or culture.

The next steps will include a further analysis of the survey findings and an evaluation of the systems' 3-year operating performance data. On-site

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visits will be made to 10 community health systems, and 1-on-1 interviews will be conducted with board leaders. Following these steps, a complete data analysis and final study report will be published. The full initial report in which these findings are discussed in detail is as follows:

Prybil L, Levey S, Peterson R, et al. *Governance in Nonprofit Community Health Systems*. Chicago, IL: Grant Thornton LLP; 2009.

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