

TRUSTEES

BOARDROOM BASICS

WHAT EVERY HEALTH CARE
TRUSTEE NEEDS TO KNOW



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Healthcare Trustees
of New York State

As a health care trustee, you are now part of a larger mission of enhancing the quality of life for your community today and for generations to come. Challenges and opportunities lie ahead, and while senior executive managers come and go, you and your fellow trustees provide your organization with “constancy of purpose.”

Health care trustees are the “governors” and directors of their organizations on behalf of their communities. They are community members who volunteer their time and expertise to help these valuable community resources fulfill their core mission of caring for and serving communities. Given the rapidly changing health care environment—and close scrutiny by regulatory bodies—it is critical that trustees have a strong, basic understanding of the core elements of governance.

The amount of information that health care trustees must learn to effectively fulfill their governance responsibilities can seem overwhelming. There are hundreds of textbooks, manuals, articles, white papers, Web sites, and other resources about governance. Many of these resources are

specifically for hospitals, not-for-profit organizations, and publicly-owned corporations. Given the wealth of information available, it is often difficult to fully grasp the “basics” that every trustee needs to know to be a top performer.

*To help provide new and current trustees with a simple, easy-to-read guide to health care governance, Healthcare Trustees of New York State (HTNYS) has developed **Boardroom Basics: What Every Health Care Trustee Needs to Know**. Through an extensive review of the many resources available, and with the knowledge and input from the Healthcare Trustees of New York State (HTNYS) 2007 Board of Trustees, this document was written to inform trustees about fundamental board roles and responsibilities.*

To further complement this publication, HTNYS has developed a companion Web site (www.htnys.org/boardroom_basics) that is organized like this document, but provides further details and resources on each topic, best practices from hospitals around the country, presentations, and educational content.

ABOUT HEALTHCARE TRUSTEES OF NEW YORK STATE

The mission of Healthcare Trustees of New York State is to assist voluntary health care trustees through education, communications, and advocacy to promote the delivery of quality health care to all communities in a cost-effective manner. A wealth of information and resources for hospital and health care governing board members is available at www.htnys.org. HTNYS is an affiliate of the Healthcare Association of New York State.

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I. DEFINING GOOD GOVERNANCE



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DEFINING GOOD GOVERNANCE

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DEFINING GOOD GOVERNANCE

There is much discussion and debate about what constitutes “good governance.” To understand what good governance is, one first needs to understand the fundamentals of governance.

Barry S. Bader, an expert in health care governance, offers a comprehensive, yet succinct, definition of governance and health care governance:

Governance is the process by which a board of directors ensures that a company is run in the best interests of the stockholders, the owners of the company. Directors govern by setting company goals and direction, adopting policies, making major decisions, selecting and evaluating the chief executive, and monitoring corporate performance.

Not-for-profit organizations don't have shareholders, but they do have “stakeholders,” constituencies that benefit from the organization's good works. Faith-based organizations such as Catholic hospitals have “sponsors,” often the local diocese or a religious community that sponsors the hospital as a ministry of the church.

In a not-for-profit or faith-based organization, governance means the board ensures that the organization is run in the best interest of the major stakeholders. A hospital's stakeholders include its patients, their families, and the community, including the poor and medically indigent. Stakeholders also include sponsors, employees, physicians, local businesses, and government, all of which have a stake in the hospital's success.

STEWARDSHIP: AN ESSENTIAL ELEMENT OF GOOD GOVERNANCE

Often, trustees of not-for-profit hospitals are referred to as the “stewards” of their community’s precious health care resources. But, what does this really mean? Miriam Webster defines stewardship as “the conducting, supervising, or managing of something; especially the careful and responsible management of something entrusted to one’s care.” According to a 2006 presentation by Cain Brothers, a health care investment banking firm, “financial stewardship is the responsibility of managing resources wisely and executing these responsibilities with integrity and ethical conduct.” Thus, as part of their stewardship role, health care trustees are responsible not only for the use of the organization’s financial resources, but ensuring that the facility is using its staff time effectively, properly managing human resources, and appropriately maintaining and enhancing the physical infrastructure and property.

While this is a solid definition of governance, particularly as it relates to hospitals and health care, the definition of “good” governance has changed over time. As pointed out in *Emerging Standards for Institutional Integrity*, published by The Governance Institute, the governing boards and executives of not-for-profit organizations have faced an onslaught of challenges to their legitimacy as tax-exempt, charitable institutions. Some of this is an extension of the Sarbanes-Oxley Act, passed in 2002, which was intended to restore public and shareholder trust in the integrity of corporations’ financial statements and business conduct. This Act set new standards for governance accountability, independence, effectiveness, and transparency.

Most of the provisions of the Sarbanes-Oxley Act—often referred to as the “gold standard” for good governance—apply only to publicly owned companies, but health care providers are adopting many of its provisions. However, two provisions are mandatory for not-for-profit organizations: establishing provisions for protecting whistleblowers and policies on document retention and destruction.

Many hospitals and health systems are also adopting the following Sarbanes-Oxley practices:

- establishing an independent audit committee, with at least one trustee being a financial expert, and keeping auditors independent;
- formally adopting a written code of ethics;
- adopting and implementing policies and procedures related to conflicts of interest;
- defining criteria for independent directors (e.g., trustees cannot serve directly or indirectly as a partner, shareholder, or officer of an entity that has a direct relationship with the health care organization);
- holding meetings without management present to evaluate performance and independence of management;
- adopting specific procedures for recruiting and nominating qualified board members and making these publicly available;

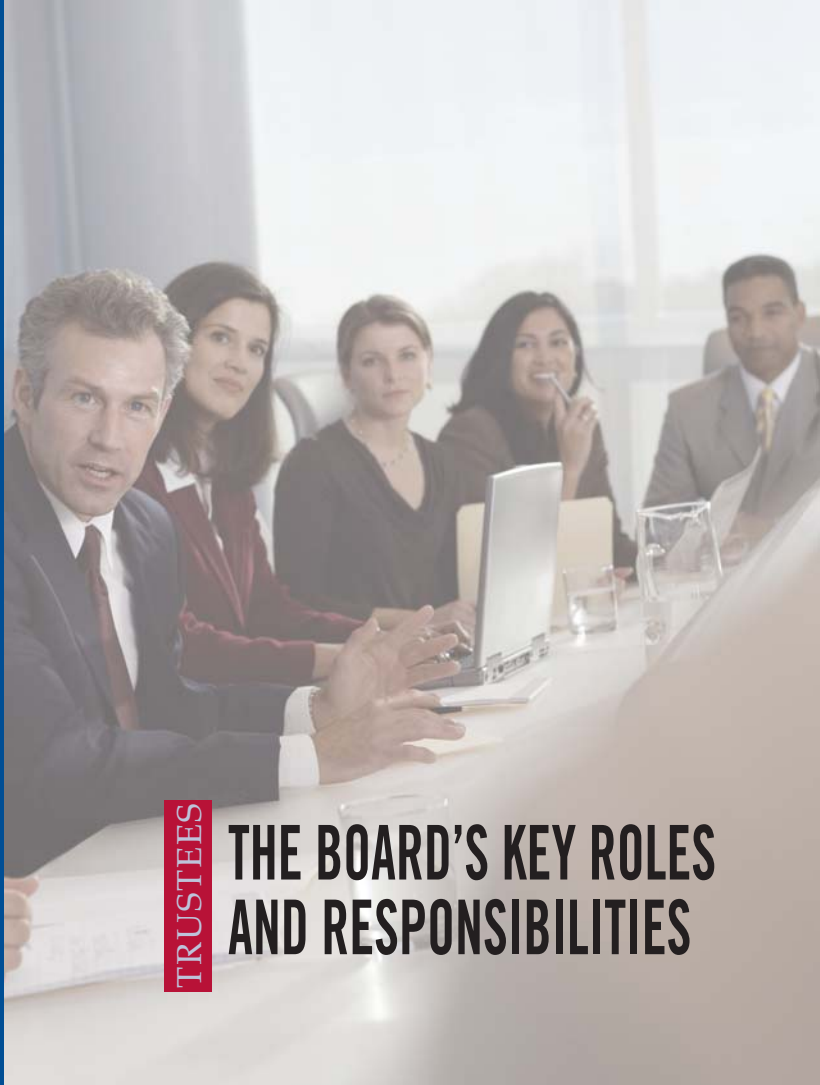
FOR MORE INFORMATION . . .

For more information about Sarbanes-Oxley and accountability, good governance resources, and best practices, visit www.htnys.org/boardroom_basics.



- creating a compensation committee;
- making information on governance, finance, programs, and activities widely available to the public;
- reporting on internal controls for ensuring accuracy of financial statements; and
- creating a board self-evaluation procedure.

II. THE BOARD'S KEY ROLES AND RESPONSIBILITIES



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THE BOARD'S KEY ROLES AND RESPONSIBILITIES

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Healthcare Trustees
of New York State

THE BOARD'S KEY ROLES AND RESPONSIBILITIES

Health care governing boards are the stewards for the community's essential health care assets. They are accountable to the community and are responsible for ensuring that their organization meets the community's health care needs. The board is responsible for:

- articulating and safeguarding the organization's mission;
- charting the course for the future through strategic planning;
- selecting, supporting, and evaluating the chief executive officer;
- ensuring, promoting, and improving the institution's financial viability;
- assessing and improving the quality of care and patient safety, including appointing and maintaining a qualified medical staff;
- serving as an advocate for the organization;
- designing and implementing board education and development, including self-evaluation; and
- being accountable to the community and key constituents, including complying with all legal and regulatory requirements.

HANDS-ON VERSUS HANDS-OFF TASKS FOR THE BOARD

HANDS ON!

Examples of What the Board Should Do

- ✓ Set the board's workplan and agenda for the year and for each meeting.
- ✓ Determine board training and development needs.
- ✓ Enforce discipline on board attendance, following bylaws and other self-imposed rules.
- ✓ Become experts in governance.
- ✓ Meet with and gather wisdom from the ownership (e.g., community members).
- ✓ Establish limits of the CEO's authority to budget, administer finances and compensation, establish programs, and otherwise manage the organization.
- ✓ Establish the results, recipients, and acceptable costs of those results that justify the organization's existence.
- ✓ Examine monitoring data and determine whether the organization has achieved a reasonable interpretation of board-stated criteria.

SOURCE: Boards that Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations, John Carver, 2006

DEFINING LEADERSHIP ROLES: GOVERNING BOARD, MANAGEMENT, AND MEDICAL STAFF

When examining the board's responsibilities, it is important to define the key roles of the organization's leadership.

Hospitals are unique in that they have three leadership components (often called authorities): the board of directors, the senior management, and the medical staff. The role of each leadership component needs to be clearly defined and the work of each group coordinated to ensure that the entire organization meets community needs and fulfills the hospital's mission.

THE ROLE OF THE GOVERNING BOARD

The governing board is the guardian of the organization's assets and resources—in the case of not-for-profit hospitals and health systems, this is done on behalf of the community. The full board acts as one body with one voice and directs the course of an organization. The board is ultimately accountable to the community for the organization's mission, strategy, quality of care, financial oversight and viability, and compliance with legal and regulatory requirements and ethical integrity.

It is the board's job to think strategically and address "macro" issues. It makes policy and strategic decisions, conducts follow-up, and evaluates the implementation of policies and decisions. It does not micromanage day-to-day operations. The board selects the chief executive officer (CEO) to whom it delegates the responsibility for implementing the strategic plan and management of day-to-day operations.

As pointed out by Richard Umbdenstock, President, American Hospital Association, in his book, *So You're on the Hospital Board*, the board is concerned primarily with whether the hospital will do something, while the CEO is given the responsibility by the board for how something will be done and for accomplishing it.

HANDS-ON VERSUS HANDS-OFF TASKS FOR THE BOARD (CONT.)

HANDS OFF!

Examples of What the Board Should Not Do

- ✓ Establish services, programs, curricula, or budgets.
 - ✓ Render any judgments or assessments of staff activity for which no previous board expectations have been stated.
 - ✓ Determine staff development needs, terminations, or promotions.
 - ✓ Design staff jobs or instruct any staff member subordinate to the CEO (except when the CEO has assigned a staff member to some board function).
 - ✓ Decide on the organizational chart and staffing requirements.
 - ✓ Establish committees to advise or help staff.
-

THE ROLE OF SENIOR MANAGEMENT

As the individual responsible for the operations of the hospital or health care organization, the CEO hires, organizes, supervises, and evaluates staff; designs and implements proper administrative policies; and allocates resources efficiently within the budgetary directives of the board.

As the bridge between the board and the organization, the CEO helps to identify critical issues that require the board's attention and provides the information boards need to make informed decisions. The partnership between the board chair and the CEO is crucial to the effective leadership of the organization.

THE ROLE OF THE MEDICAL STAFF

The medical staff comprise the third leadership group within the hospital. The medical staff are individuals upon whom the health care organization depends to promote its services or products, but who are not necessarily employed by the organization. Hospitals have a unique organizational structure due to the relationship of independent physicians working under a loose alliance with the hospital. Physicians are licensed to practice medicine and need the resources provided by the hospital to treat acutely ill patients—and they are the only people who can admit patients to the hospital; thus they play a critical role in building a successful hospital and health system. The governing board and CEO work closely with the medical staff to maintain patient volume and ensure quality.

Since the governing board is ultimately responsible for the organization's quality of care, as detailed in the section on quality and patient safety, trustees have a special relationship with the medical staff. Governing boards approve medical staff bylaws and must approve any rules, regulations, and procedures related to credentialing, appointment, selection, removal, suspending, and terminating

physicians as members of the medical staff. Additional details about the governing board role with medical staff credentialing and quality of care are included on page 18.

RESPONSIBILITIES OF GOVERNANCE AND MANAGEMENT

GOVERNANCE: Focus on Strategy

Overview: Board

- ✓ Oversees and evaluates
- ✓ Reviews and monitors

Specific Functions

- ✓ **STRATEGIC DIRECTION:** In partnership with CEO, guide the mission, goals, purpose, and organizational policies.
- ✓ **MANAGEMENT OVERSIGHT:** Ensure sound management and human resources practices and hire/support/evaluate/discharge the CEO.
- ✓ **FINANCIAL ACCOUNTABILITY AND OVERSIGHT:** Review and approve annual budget; and review and approve major organizational decisions, commitments, etc.
- ✓ **QUALITY OVERSIGHT:** Ensure the delivery of the best possible quality of patient care.
- ✓ **ADVOCACY:** Communicate with and engage key constituents in support of the organization's agenda.
- ✓ **BOARD SELF-ASSESSMENT AND DEVELOPMENT:** Conduct affairs of the board.

SOURCE: Adapted from Free Complete Toolkit for Boards, written by Carter McNamara, M.B.A., Ph.D., Authenticity Consulting, LLC. Copyright 1997-2008.

Establishing trust between the medical staff and the board was one of my proudest achievements as a hospital trustee.

— Joan Conboy, Trustee, Little Falls Hospital

Beyond the credentialing process, there are many facets to the relationship between the hospital and its medical staff. The board has an important role to play to enhance and nurture this essential partnership. Whether it is looking at joint ventures with physicians, the development of a medical staff plan for recruitment, or developing quality-improvement endeavors, the governing body and the medical staff must work together to advance the organization's mission.

FOR MORE INFORMATION . . .

For more information about relationships with physicians, visit www.htnys.org/boardroom_basics.



FULFILLING THE BOARD'S FIDUCIARY RESPONSIBILITIES

Non-profit institutions are community resources and often carry out the "public good" functions of charitable healing and educating. In recognition of these community benefits, not-for-profit entities are granted certain privileges, like tax exemption and other support, to promote their viability and continued contribution. Because a not-for-profit charity is a community resource, its directors and executives are stewards of the community, obligated to safeguard the entity's assets, cultivate its resources, and carry out its mission. Those citizens with the interest and commitment to direct

RESPONSIBILITIES OF GOVERNANCE AND MANAGEMENT

(CONT.)

MANAGEMENT: Focus on Operations

Overview: Management

- ✓ Day-to-day administration
- ✓ Management of staff

Specific Functions

- ✓ **PROGRAM PLANNING AND IMPLEMENTATION:** Take strategic direction and put it into action.
 - ✓ **ANNUAL GOALS AND OBJECTIVES:** Formulate for board approval and prepare performance reports on progress.
 - ✓ **ADMINISTRATION:** Ensure effective management of program details including staff and financial management, advertising and promotions, facilities management, and other day-to-day operations.
 - ✓ **FINANCIAL MANAGEMENT:** Develop budget for board approval and ensure expenditures stay within budget limits.
 - ✓ **QUALITY MANAGEMENT:** Direct quality management activities on a day-to-day basis and provide comprehensive reports to the board.
 - ✓ **ADVOCACY:** Develop, in partnership with the board, the agenda and implement the plan for success.
-

and oversee the entity's affairs—the board of directors or trustees— accordingly assume the heightened responsibility of a fiduciary duty to the corporation in particular and the community in general.

FIDUCIARY DUTY:

“A duty to act for someone else’s benefit, while subordinating one’s personal interests to that of the other person. It is the highest standard of duty implied by law (e.g., trustee, guardian).”

— Black’s Law Dictionary, Sixth Edition, 1991

THE THREE COMMON LAW DUTIES

All health care trustees are obligated to adhere to three common law duties—duty of care, duty of obedience, and duty of loyalty.

DUTY OF CARE

As stewards of the hospital, each board member must exercise reasonable care when making a decision and to make sure that the decision is in the best interest of the hospital. They must act in good faith and exercise reasonable care in making decisions.

The duty of care describes the level of competence expected of a board member and is commonly expressed as the duty of care that an ordinarily prudent person would exercise in a like position under like circumstances—this is called the business judgment rule.

Attending meetings, being informed, making reasonable decisions, and ensuring that strategies are being implemented are key aspects of fulfilling the duty of care. It is important to note that trustees are still responsible for being informed of the board’s action, even if they do not attend the board meeting—it is an individual trustee’s duty to be fully aware of the board’s issues and action.

DUTY OF LOYALTY

The duty of loyalty is a standard of faithfulness—it calls upon trustees to act in the best interest of the organization. It requires that trustees put aside individual interests and commit allegiance and be unbiased in decisions and actions.

This standard prohibits an individual from using his or her position as a springboard for personal gain, which also means avoiding conflicts of interest—real or perceived. Thus, it is important that governing boards adopt clear conflict-of-interest policies and require that individual trustees sign statements regarding conflict of interest.

Conflict-of-interest policies should be written and include: a statement of how matters in which a board member is potentially “interested” will be handled; a provision requiring that transactions be approved by a majority of members who have no financial interest in the transaction; and a mandate of disclosure of relationships between directors and the organization with which the organization does business. It is important to record in the meeting minutes conflict of interest issues that arise and how they were handled.

FOR MORE INFORMATION . . .

Visit www.htnys.org/boardroom_basics for more information and samples of conflict-of-interest policies and statements.



DUTY OF OBEDIENCE

Being faithful to the organization’s mission is the essence of the duty of obedience. It requires trustees to follow the letter and spirit of the mission, articles of incorporation, by-laws, and policies, as well as to ensure compliance with applicable federal, state, and local laws.

RESPONSIBILITY FOR FINANCIAL OVERSIGHT

A fundamental role of the governing board is establishing a mission for the hospital and then providing the means to achieve that mission. Those means are detailed in the hospital’s short- and long-range strategic plans as well as its financial plan. It is the board’s responsibility to determine

QUESTIONS FOR BOARD MEMBERS: Trustees Need to Ask the Right Questions

Financial Performance

- ✓ What is our margin?
- ✓ How does our present performance compare with our budget?
- ✓ From where does our profit come?
- ✓ Do we depend too much or too little on payments from Medicare and Medicaid?

Margin

- ✓ What is our return on equity?
- ✓ What is our operating margin?
- ✓ How do we subsidize care to high-discount patients, such as Medicaid or indigent patients?
- ✓ Does the discounted price we receive from government agencies cover our basic costs and overhead?

Debt

- ✓ What is our cash flow (profit plus depreciation)?
- ✓ Are we generating enough cash to pay off the principal and interest of long-term debt?
- ✓ Are we likely to remain solvent?
- ✓ How much of our debt is built into our capital structures?
- ✓ What, in fact, is our debt capacity?

Adapted from Bradford, Charles K. and Tiscornia, John F. Monitoring the Hospital's Financial Health. Chicago: American Hospital Publishing Company, 1987.

the hospital's financial goals, establish the policies necessary to achieve those goals, and monitor the operations to see that those goals are attained. The financial statements of a hospital are an important tool for the board to use in determining how well the hospital is progressing in relation to the goals the board set for the hospital.

Specifically, the health care governing board's responsibilities for financial oversight include:

- establishing financial goals for growth, debt capacity, and return on equity, and monitoring progress toward those goals;
- approving an annual budget and reviewing the status of the budget routinely;
- developing and monitoring investment policies and goals;
- setting criteria for return on investment and new business ventures; and
- determining policies on uncompensated care, provision of needed community services, and development of alternative revenue sources.

It is also important for governing board members to understand the sources of revenue for their health care organization. In *The Trustee Handbook for Health Care Governance*, governance experts James E. Orlikoff and Mary R. Totten note that the vast majority of health care organizations' revenue comes from patient services, and that payment for patient services comes from a variety of sources. Approximately 90% of bills are not paid by patients. They are paid by third-party payers, which include Medicare, Medicaid, insurance plans, or managed care companies—often referred to as health maintenance organizations (HMOs).

FOR MORE INFORMATION . . .

For more information about the board's role in finance, visit www.htnys.org/boardroom_basics.



Understanding the “payer mix” of the hospital enables trustees to see how changes in government policy and budgets will affect the hospital's financial situation. This also arms trustees with the information they need to be advocates on behalf of their communities.

QUESTIONS FOR BOARD MEMBERS: Trustees Need to Ask the Right Questions (CONT.)

Pricing and Payment

- ✓ What is our market?
- ✓ Do we serve any special niche?
- ✓ How do we price our products?
- ✓ Do we have control over our pricing?
- ✓ What measures are taken to control costs?

Planning for the Future

- ✓ How much do we plan to spend for capital assets in the next five years?
 - ✓ Where will the money come from to pay for those capital assets?
 - ✓ Do we have a schedule for spending the money?
 - ✓ Do we have a plan for generating the money needed?
 - ✓ Should we narrow our range of products and services—or broaden it?
-

SELECTING, SUPPORTING, AND EVALUATING THE CHIEF EXECUTIVE OFFICER

A critical board decision is the selection of a qualified, effective CEO to manage the organization. The governing board is also responsible for determining executive compensation and monitoring CEO performance.

An effective selection process begins by identifying the skills and experience the hospital needs now and for the future. This process can be done internally or can involve a consultant who can objectively help guide the process. It is important to solicit the input of the former CEO and the medical staff in the development of selection criteria. Once the criteria are complete, the board develops job specifications and a position description, appoints a search committee of the board to help guide the recruitment process, and considers the use of an executive recruitment firm to help with the search process.

While the search committee will help to narrow the list of potential candidates, the final candidates for the position should be interviewed by the entire board, which should convene as a group to make the final decision.

EXECUTIVE COMPENSATION

The issue of compensation for executives is a “hot button” for hospitals and other not-for-profit organizations. The determination for how much an executive is paid is a board responsibility. Under Internal Revenue Service (IRS) regulations, the board is responsible for seeing that executive

pay and benefits are consistent with the organization's charitable mission and are reasonable compared with fair market value in the industry.

Section 4958 of the IRS Code authorizes "intermediate sanctions" in the form of penalties and excise taxes if it finds excessive compensation or self-dealing and misuse of charitable resources by trustees or officers. It also describes three conditions for boards to create a "rebuttable presumption" that executive pay is reasonable:

- compensation is reviewed and approved in advance by a board or committee of "disinterested" board members (members who are not in a position to benefit personally from compensation decisions);
- the board or committee relies on independent sources (not management) for information on compensation at comparable organizations; and
- the board or committee makes a contemporaneous, written record that clearly documents its thoroughness and the rationale for its decisions.

FOR MORE INFORMATION . . .

For more information about executive compensation and leadership transition planning, go to www.htnys.org/boardroom_basics.



Even if there is a compensation committee of the board, the full board should review and approve the committee's recommendations and the organization's compensation philosophy and incentive plan that provides the framework for determining executives' base pay, incentives, and benefits.

MONITORING PERFORMANCE

The governing board must monitor and evaluate the CEO's performance through a deliberate, objective, and fair process.

A well planned CEO evaluation can improve organizational performance and support the accomplishment of the board's goals. The process should allow the board to state its perceptions of the CEO's performance and provide the CEO with direction about performance improvement and the board's expectations.

The board and the CEO collaborate to define specific and measurable annual CEO performance objectives that are based on the organization's annual goals and objectives and on defined progress toward accomplishment of longer-term strategies and goals. The criteria used to evaluate the CEO and determine incentive payment should be based on factors that support the organization's mission, vision, and market strategy.

Potential quantitative measures should include:

- financial performance and specified financial ratios;
- operating indicators, including length of stay, average daily census, admissions, outpatient visits, etc.;
- quality measures and patient outcomes, such as mortality rates, infection rates, etc.;
- market share growth;
- physician satisfaction;
- employee satisfaction;
- patient satisfaction;
- public trust and confidence; and
- achievement of hospital strategies/objectives.

In addition to numerical measures, 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;
- independence and development;

- communication;
- problem solving;
- ethics; and
- the CEO's success in accomplishing specific strategic and personal objectives defined by the board at the beginning of the evaluation period.

Many hospitals are now using “dashboards,” which are balanced scorecards that provide a visual, easy-to-understand report of how the organization and its executive are meeting the clearly defined measures of performance. More information about dashboards and balanced scorecards are available in the section on ensuring clear communication.

SUCCESSION PLANNING AND MANAGING CEO TRANSITION

Given the critical role of the CEO, it is essential that the board be prepared for the departure of this executive through a CEO succession plan. In the Washington State Hospital Association's *Governing Board Orientation Manual*, governance expert Dennis Pointer, Ph.D., notes that a CEO succession plan serves as a road map for successfully navigating from the departure of one CEO to the arrival of the next. He recommends that the plan be formulated with the assistance of the current CEO, reviewed and updated every several years, and codified as board policy.

Just as important as succession planning and selecting the appropriate candidate is the process for supporting and transitioning the new CEO. In the article, *In Search of Excellence in CEO Succession: The Seven Habits of Highly Effective Boards*, Max Landsberg, of the executive search firm Heidrick & Struggles, notes that transitional support from the board will likely be needed as the new CEO crafts his or her agenda, particularly as it relates to internal and

external relationships, strategy and cultural change, building the executive team, and establishing governance mechanisms and performance indicators.

Perhaps the greatest achievement I have been privileged to be part of was the evolution of the hospital to a medical center. The strategic planning process was the beginning of something very good.

— C. William Brown, Trustee, Strong Health/
University of Rochester Medical Center

SETTING STRATEGIC DIRECTION

Many experts note that the most important responsibilities of a health care governing board are articulating a meaningful mission statement and engaging in strategic planning.

The mission statement defines the organization’s reason for being; it should answer the fundamental question of “why do we exist?” It is prudent to review the organization’s mission statement for relevancy every two to three years. This review should include input from physicians, employees, the community, and other key stakeholders.

The mission statement forms the foundation of the organization’s strategic plan and provides the roadmap for a strategic planning process that determines what an organization wants to be in the future and how it will get there. It is important to remember that strategic planning is about more than developing a plan—it is a process for determining a long-term vision and establishing a framework for when and how to get there.

Among the board’s key responsibilities for strategic planning are:

- ensuring that a planning process is in place;

- assigning responsibility to oversee the process (usually this will be assigned to a strategic planning committee of the board, but it can be assumed by the board as a whole);
- making policy decisions on the organization's strategic direction;
- ensuring that the strategic direction is consistent with the mission and vision and is appropriate to the environment;
- reviewing and approving specific projects and actions to verify that they are consistent with the strategic plan;
- monitoring the implementation of the strategic plan and progress toward achieving goals and objectives; and
- regularly modifying and updating the plan.

SOURCE: The Trustee Handbook for Health Care Governance, James E. Orlikoff and Mary Totten, 2001.

Quality of patient care, the consolidation of the insurance market, survival of our nursing home, and the future configuration of our hospital were all ably addressed through a strong strategic planning process.

— Stephen L. Albertalli, Trustee, Corning Hospital

Regardless of what kind of process a board uses, its strategic plan should include:

- a clear vision for the organization;
- between four and ten primary areas of focus, with goals, objectives, and metrics for monitoring progress for each area;
- strategies to achieve the goals and objectives; and
- an action plan for how to implement the goals and objectives.

FOR MORE INFORMATION . . .

Visit www.htnys.org/boardroom_basics for more information about strategic planning.



Keep in mind that the board's role is to determine the strategic goal and direction of the hospital or health system—it is the role of management to implement the action plan.

ADDRESSING COMMUNITY HEALTH: THE BOARD'S ROLE

When every member of our board took swift action in the face of a threat to our long-term viability, we won the day. It was good for the hospital, it was good for the trustees, but mostly, it was good for the community.

— William Bitner, Trustee, Glens Falls Hospital

Health care governing boards play a pivotal role in ensuring that their organizations strive to meet their community's health care needs. The mission statement for the organization should define the community and how the hospital or system strives to meet the needs of that community. Many hospitals are going beyond traditional “sick” and emergency care and partnering with their communities to address the multitude of issues—such as literacy, poverty, and obesity—that impact the community's overall health status.

Watching the kids walk across the stage and celebrate enormous achievement with great optimism and hope looking forward—it's a great feeling to see our future caregivers and know that I have been a part of this experience.

— John Robinson, Trustee, Albany Medical Center

In *The Trustee Handbook for Health Care Governance*, governance experts James E. Orlikoff and Mary Totten offer the following tips for effective governance involvement in community health:

- define your community;
- develop partnerships with other health care providers and community organizations that bring diverse resources for assessing and improving health;
- develop a shared vision, values, and plan with the partnership, and reach a broad definition of community health;
- develop a series of community health indicators—report them to both the partnership and the hospital/health system board;
- using these health status indicators, develop annual community health status improvement goals and targets, and measure performance and outcomes against these targets;
- with the partnership, conduct routine assessments of the community’s health status;
- consider creating a board committee to oversee the organization’s community health agenda;
- hold your CEO accountable for community health through the CEO evaluation process; and
- evaluate and, if necessary, revise the mission of the organization to ensure commitment to community health.

In New York State, since the early 1990s, not-for-profit hospitals have been required to file an annual Community Service Plan that includes the organization’s mission statement, the health issues facing the community, and the hospital’s plan (i.e., programs or services) for meeting those community needs. In most hospitals, the governing board reviews and approves these plans.

Often, “community service” and “community benefit” are talked about in tandem. Community benefit can loosely be defined as the quantifiable benefits hospitals and other not-for-profit organizations offer in return for their tax-exempt status. This is a key concern for hospitals, given the federal and state focus on this issue.

THE BOARD’S ROLE IN QUALITY AND PATIENT SAFETY

Health care governing boards are responsible for monitoring quality improvement programs to ensure delivery of the best possible care. This includes effective functioning of their organization’s quality assurance programs, medical staff credentialing, and quality improvement activities.

The board’s role in quality and patient safety has taken on a new dimension in recent years. While health care boards have historically focused on the business aspects of the organization, there has been a renewed emphasis on the board’s role in quality. As noted by governance experts James E. Orlikoff and Mary Totten in *The Guide to Governance for Hospital and Health System Trustees*, “Quality is a strategic imperative for health care organizations and systems. With the growing release of health care information to the public and purchasers, and with exploding use of the Internet for health information, health care organizations are rapidly entering the era when they will compete on the basis of the quality of care and service they provide.”

QUESTIONS FOR BOARD MEMBERS: Trustees Need to Ask the Right Questions

One recent study shows that better patient outcomes are associated with hospitals in which:

- ✓ the board spends more than 25% of its time on quality issues;
- ✓ the board receives a formal quality performance measurement report;
- ✓ there is a high level of interaction between the board and the medical staff on quality strategy;
- ✓ the senior executives' compensation is based in part on quality performance; and
- ✓ the CEO is identified as the person with the greatest impact on quality, especially when so identified by the executive in charge of quality.

SOURCE: Vaughn, Koepke, Kroch, Lehrman, Sinha, Levery. Engagement of leadership in quality improvement initiatives: Executive quality improvement survey results. 2006.

In addition to asking the tough questions, health care governing boards should review and approve the organization's quality improvement plan and program each year and examine trends in care and seek explanations for deviations or variances. In *The Guide to Governance for Hospital and Health System Trustees*, governance experts James E. Orlikoff and Mary R. Totten also recommend that boards evaluate liability through risk management activities, which includes examining the type and level of actual and potential liability facing the hospital; focusing on individual patient occurrences; and reviewing malpractice claims and lawsuits profiles across medical staff, current level of liability insurance protection and coverage, and the amount of reserve the organization has set aside to cover losses.

Many requirements for board accountability and responsibility for quality come from The Joint Commission, an accrediting body that emphasizes the board's responsibility for quality and medical staff credentialing. The Joint Commission's *Hospital Accreditation Manual* contains more than 130 required characteristics of credentialing criteria. The credentialing process ensures that applicants seeking medical staff membership and privileges meet the organization's standards.

The board plays an important role in ensuring that the organization has a qualified medical staff as part of its overall quality responsibility. In regard to medical staff credentialing, the board appoints and retains qualified medical staff, ensures that only qualified doctors are granted privileges to practice and that physicians practice within the scope of capabilities and expertise, establishes and uses effective policies and procedures for the initial appointment and reappointment of physicians to medical staff, and grants and renews clinical privileges to medical staff members.

EXAMPLES OF QUESTIONS THAT BOARDS SHOULD ASK:

- ✓ What is the board's responsibility and accountability for quality and safety?
- ✓ What is the current state of quality improvement and safety in health care overall? In our community? In our hospital or health system?
- ✓ Are we focused on our most important improvement opportunities? How would patients view our priorities?
- ✓ Do we have a rigorous process in place to evaluate quality?
- ✓ Is there a solid rationale for the annual and long-term improvement goals that management is recommending?
- ✓ How do we set our goals: Peer group average? Best in class? Theoretical best? Do we set the bar high enough?
- ✓ How quickly can we expect changes to occur? What is realistic? What is too slow?
- ✓ Do we have any systemic/infrastructure weaknesses that should be addressed to meet our internal improvement aims and/or respond to external demands for data and accountability?
- ✓ Are we improving fast enough to meet our annual and long-term improvement goals? Do we understand why performance is mediocre or stagnant?
- ✓ Are there any individual facilities or programs/product lines that have weak improvement capabilities or insufficient capacity to improve?
- ✓ What are the best strategies to sustain the gain and drive continuous improvement? Are we doing enough to find and disseminate best practices and great ideas?

(Adapted from Barry Bader June 2007 presentation, IHI materials, and HTNYS leaders.)

Although medical staff are responsible for assessing an applicant's professional competence, performance, character, and fitness, and for making a recommendation to the governing board, the board must ensure that the medical staff have established a meaningful, objective procedure for evaluating applicants and must verify that each step of the procedure has been conducted. It is the board's responsibility to make the final decision for each applicant.

Boards that are educated about their quality of care role and about the hospital's quality improvement and credentialing processes can understand the information they receive, ask good questions, and make good decisions.

FOR MORE INFORMATION . . .

For more information about and tools for helping the board fulfill its role in quality, visit www.htnys.org/boardroom_basics.



THE KEY ROLE TRUSTEES PLAY IN ADVOCACY

As a community health care leader, one of the most important roles a trustee has is to advocate on behalf of the health care facility. The role of advocate is a powerful one. When state or federal lawmakers hear from a volunteer trustee on an issue of importance to the local hospital or health care provider, they take notice.

Advocacy is a critical role for trustees—it's important that you build long-term relationships with elected representatives. The ultimate goal is to have them call you to find out the impact of proposed legislation on the hospital.

— Howard Howlett, Trustee, WCA Hospital

Becoming an effective health care advocate is one of the most vital skills trustees can develop. However, to be an effective advocate, trustees must be educated and stay updated about the ever-changing health care trends and the impact of federal and state initiatives on their local hospital. New York State’s hospitals and health care providers are under constant pressure to maintain high-quality health care, while coping with severe financial constraints. The result is that hospitals, health systems, and continuing care providers are continually faced with the challenge to do more with less.

Federal and state policymakers often enact legislation that curtails health care financing without any real understanding of the impact these changes have on the local health care facilities and the patients they serve. By working with the CEO and senior managers, trustees can be a valuable asset in helping to deliver the message that brings home the impact of legislative proposals on the local hospital or health care provider.

There are many ways to voice concerns to policymakers. Trustees can request a meeting or invite a legislator to visit the hospital. They can participate in letter-writing campaigns. And, if they have a personal relationship with a legislator, trustees can make telephone calls on the hospital’s behalf—this can be extremely powerful in delivering the message.

Beyond legislative advocacy, trustees play a key “ambassador” role to their communities and key hospital constituencies, in particular the business community. As noted in Peter Drucker’s book, *Managing the Nonprofit Organization: Principles and Practices*, “Board members are governors. When they sit around the table and vote their ‘I so move,’ they govern the institution. Board members are sponsors and here we get to their role in giving and raising money. They are ambassadors—interpreting the mission of

FOR MORE INFORMATION . . .

For further information about the trustee role in advocacy, visit www.htnys.org/boardroom_basics.



the institution, defending it when it's under pressure, and representing it in their constituencies and communities.”

THE BOARD'S ROLE IN PHILANTHROPY

Board members have the ultimate responsibility for accruing and protecting their organization's resources. In a November/December 2006 article from *Trustee*, Ronald G. Spaeth, President of Evanston Northwestern Healthcare Foundation, notes that, “In recent times, philanthropy as a board activity has been dormant; the sense of urgency to give and to promote charitable giving has been absent. Now, however, the board must renew its appreciation for philanthropy's importance to the financial health and well-being of the hospital. Indeed, even if a hospital has a foundation with its own board, the hospital's board members still have a responsibility for philanthropy and fundraising.”

Trustees are called upon to make decisions and delegate tasks in many areas. In fundraising, however, board members are called to participate directly. Trustees need to know what they are responsible for as they participate in fundraising activities and how to go about fulfilling those responsibilities.

EVALUATING AND ASSESSING THE BOARD'S PERFORMANCE

How can a board tell if it is working effectively? One proven way is by conducting a self-evaluation, also called a self-assessment. A board self-assessment is an organized quantitative and qualitative evaluation of its performance in fulfilling its governance responsibilities. It combines ratings of statements about the hospital's governance environment, focus, processes, and performance with trustee recommendations for change to improve leadership performance. Done correctly and consistently, a board self-assessment process (a combination of the assessment and the action plans created from it) enables the board to identify critical “leadership gaps” and achieve and maintain the level of

governing excellence required for success in today's challenging health care environment.

There are ten key areas that boards should look at in their self-evaluations:

- mission, vision, and values;
- strategic direction;
- leadership structure and governance processes such as meetings, communication, and committees;
- quality and patient safety;
- developing strong community relationships;
- building an effective and collaborative relationship with the CEO;
- building effective and collaborative medical staff relationships;
- ensuring strong financial leadership;
- improving community health; and
- ensuring organizational ethics and compliance.

There are many ways for boards to conduct self-assessments—written surveys, interviews, group discussion—but regardless of method, the board should engage in a robust dialogue.

According to the Panel on the Nonprofit Sector in its *Principles for Good Governance and Ethical Practices*, “Board members should evaluate their performance as a group and as individuals no less frequently than every three years.”

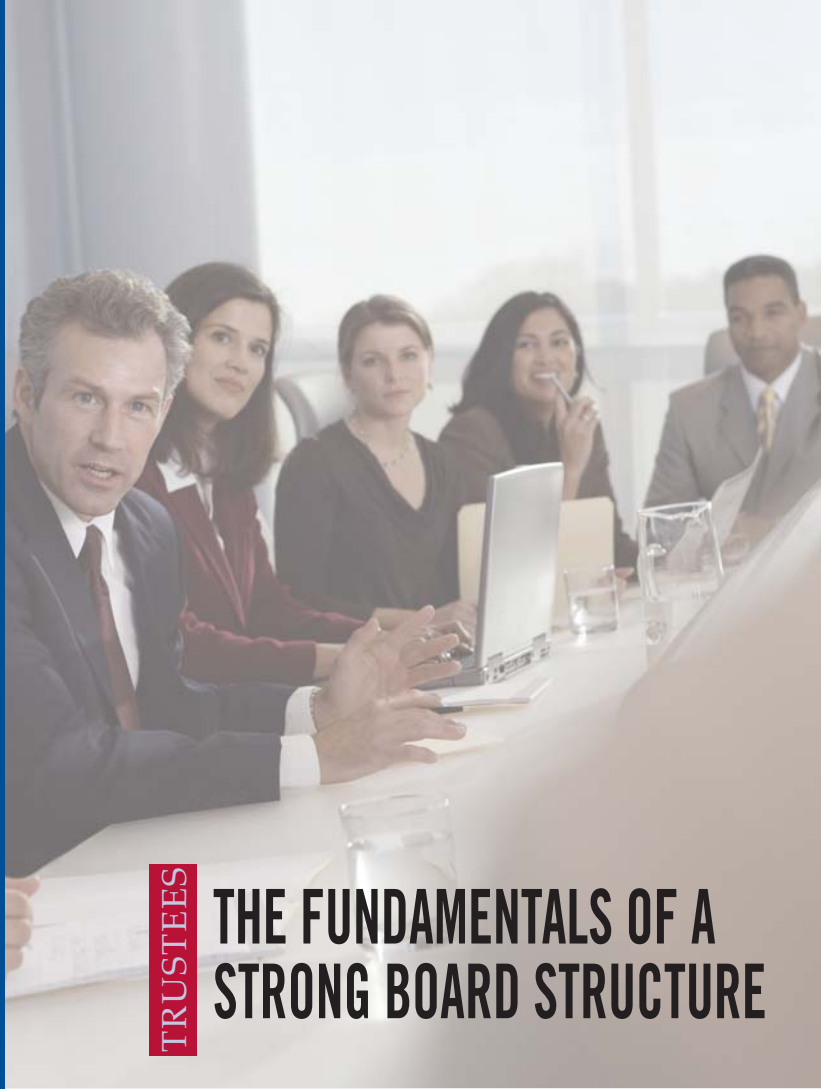
In today's world, conducting a self-assessment is not only the right thing to do, but the prudent thing to do—it is one of the provisions for publicly-owned companies included in the Sarbanes-Oxley Act.

FOR MORE INFORMATION . . .

For resources, checklists, and information about board self-evaluations, visit www.htnys.org/boardroom_basics.



III. THE FUNDAMENTALS OF A STRONG BOARD STRUCTURE



TRUSTEES

THE FUNDAMENTALS OF A STRONG BOARD STRUCTURE

HTNYS



Healthcare Trustees
of New York State

THE FUNDAMENTALS OF A STRONG BOARD STRUCTURE

For the board to effectively govern, it must have a framework and structure to operate efficiently and fulfill its responsibilities. Although board meetings are important to functioning, the board structure and operation is about more than meetings—it expands to roles and responsibilities, clear expectations, orientation, training, and information.

TYPES OF BOARDS

Somehow, adversity got the board, medical staff, nurses, and administration to pull together and commit to long-term survival—the challenge is maintaining that commitment.

— Carlos Naudon, Trustee,
The Brooklyn Hospital Center

Traditionally, hospitals have been governed by local boards of community volunteers—they represented the community and served as the stewards for that hospital and its local constituents. As hospitals and health care providers have affiliated, merged, and grown into systems, the role of the “community” board has changed. In an article in the Summer 2005 edition of *Great Boards*, governance expert Barry Bader reported on a study he conducted with two other governance experts (Ed Kazemek and Roger Witalis) for The Governance Institute (TGI) regarding trends among the nation’s largest health systems.

According to Mr. Bader, large health systems have been shifting their governance structures along a continuum from a holding company model to more of a corporate enterprise model; that is, focusing on strategy, results, and financial integrity. The survey conducted for TGI showed that system governance is assuming greater authority for strategic and financial goals for subsidiaries and holding them accountable for performance. Some systems abolished local boards, but most are evolving “shared governance” models. Systems are adopting system branding strategies, centralizing information systems, and standardizing patient care management systems to better align subsidiaries around the system’s strategic direction.

A key difference in governing boards is the “increased emphasis on corporate experience and/or business acumen when selecting new board members” for systems.

Being part of the creation of a 15-hospital system and forming a research institute—these have been very satisfying and rewarding achievements of my 35 years as a board member.

— Ralph Nappi, Trustee,
North Shore-Long Island Jewish Health System

Bader suggests four key action steps to achieve the full potential of systems leadership:

1. Develop clear, non-duplicative, and meaningful roles for all boards. Consolidate overlapping boards; eliminate unnecessary ones.
2. Empower boards with the education and resources they need to be effective, such as system-wide dashboard reports.
3. Spend time on a succession planning process to recruit and retain great board members and leaders.

4. Clearly state the system's governance principles, strategic vision, and major initiatives, and provide multiple opportunities for trustee engagement.

ARTICLES OF INCORPORATION, BYLAWS, AND OTHER POLICIES

All incorporated organizations—including hospitals and health systems—must create and file with the Secretary of State articles of incorporation that detail the organization's name, address, purpose, activities, and a provision regarding dissolution. Every not-for-profit organization has articles of incorporation and they rarely change.

Bylaws govern the day-to-day rules and processes that organizations adopt to fulfill their mission. Bylaws are legal documents that set forth the purpose, objectives, structure, and operating responsibilities of the board, administration, and medical staff. Bylaws should:

- address rules relating to number of members, election and nomination process, powers of directors, terms of office, and duties;
- include who votes, how often, and when, as well as who is not entitled to vote;
- include the standing committees of the boards and define their charters; and
- define “quorum”—the number of trustees legally required to take action.

It is important for hospitals to operate in accordance with bylaws—they are subject to liability if the board does not follow them. That is why many hospitals update their bylaws at regular intervals and enlist the assistance of legal counsel to ensure that any revisions comply with state and local statutes.

In today's environment, it is also important that boards have policies covering:

- code of conduct, including specific criteria for removal from the board;
- conflict of interest; and
- confidentiality.

In some organizations, trustees are asked to sign conflict of interest and confidentiality statements.

BOARD COMPOSITION AND RECRUITMENT

A key question many trustees ask is: How many members should be on our board? According to governance experts, leaner boards are more suited to efficient operations and decision-making.

On average, according to James E. Orlikoff and Mary Totten in *The Guide to Governance for Hospital and Health System Trustees*, the average hospital board has 14 trustees and systems have 18. In its *Principles for Good Governance and Ethical Practice*, the Panel on the Nonprofit Sector noted that the “ideal size of a board depends on many factors, such as the age of the organization, the nature and geographic scope of its mission and activities, and its funding needs.” The Panel also notes that while large boards may ensure a wide range of perspectives and expertise, they often become unwieldy and delegate too much responsibility to the executive committee. Likewise, smaller boards may not have the full range of knowledge and experience necessary to inform their decision—this generally means, according to the Panel, that the board should have at least five members.

Many hospital and health system boards are composed of community and business leaders who bring expertise in budget and financial management, investments, personnel, public relations and marketing, governance, advocacy, and

leadership. With a renewed focus on accountability, boards need to think about ensuring they have people with leadership capabilities who can think strategically, ask the tough questions, and not get “caught in the details” by attempting to micromanage day-to-day operations.

Generally, the process for identifying and selecting trustees is overseen by the board’s nominating or governance committee and conducted with participation of all board members. Mr. Orlikoff and Ms. Totten recommend a five-step process for identifying and selecting board members:

- **STEP 1.** Identify the skills and attributes your board needs to face the future: which type of board members could best address these issues?
- **STEP 2.** Identify skills and attributes currently on your board and develop a profile to help identify strengths, weaknesses, and needs. Profiles should include expertise, experience, areas of interest, type of community involvement, age, residency, race, gender, and board tenure.
- **STEP 3.** Develop selection criteria. These might include general requirements that all board members should meet (ability to meet projected time commitment or willingness to participate in board orientation), as well as demographic or specific qualifications.
- **STEP 4.** Recruit prospective candidates.
- **STEP 5.** Build a commitment to serve.

Governance expert Barry Bader notes that hospitals and health systems are moving away from constituency-based boards in favor of trustees with the objectivity, commitment, and expertise to make decisions in the best interest of the entire system, its mission, and all its communities and stakeholders. Thus, they are using competency-based criteria. According to Mr. Bader, the needed competencies fall into three categories:

- **UNIVERSAL COMPETENCIES:** personal characteristics all members should possess, such as commitment to mission, integrity, and ability to make objective decisions.
- **COLLECTIVE COMPETENCIES:** qualifications at least some trustees should have, such as financial and business acumen and executive level business experience.
- **DESIRABLE COMPETENCIES:** needs the board hopes to fill, such as greater gender and ethnic diversity, or expertise in emerging fields such as technology and consumerism.

In most hospitals and health systems, the CEO is generally a member of the board—some CEOs are voting members of the board and some are not (these individuals are considered ex-officio). The president of the medical staff is often a member of the board, as are other physicians. It is important when deciding whether to include physicians on the board to apply the same criteria you would to other potential board nominees, particularly given any potential conflicts of interest. Given the focus on patient safety and quality of care, there is also a movement toward including more clinicians, in particular nurses, in governance deliberations or as members of the board.

RECRUITING RESPONSIBLE BOARD MEMBERS

An effective board is comprised of individuals who can contribute critically needed skills, experience, perspective, wisdom, and time to the organization. A board should have a clear plan to identify and recruit the most appropriate people to serve on the board. It is important that new “recruits” understand the commitment they are making—both in time and passion.

Once the board has identified the attributes and characteristics it needs in the mix of members, it should begin developing a targeted list and plan for potential recruits, including the role that individual board members can play.

One responsibility of all governing board members is to be “on the lookout” for potential trustees in the community and in business settings. Given the growing constraints on volunteer time—particularly of those still in the pinnacle of their careers—many boards are establishing topic-specific, time-limited advisory boards. The members of these advisory boards contribute talent and expertise, and this venue provides an opportunity to raise awareness of the board’s activities and begin cultivating the next generation of members.

In today’s era of increased accountability and transparency, it is also essential that boards develop and adopt a definition of an independent director—that is, an individual with no economic ties to the organization. This is particularly important for trustees who serve on certain board functions such as audit and executive compensation committees.

Succession planning for the board is also important to not only filling an empty seat, but to improving board and organizational performance. By regularly assessing the board’s leadership strengths and weaknesses and using the hospital’s strategic plan to define future leadership needs and requirements, the board can identify governance “gaps” that can be closed through targeted trustee recruitment.

DIVERSITY

“If we are going to find new and creative solutions to the challenges [facing the health care system], we cannot do it by using the techniques that created these problems,” wrote Samuel L. Odle, F.A.C.H.E., President and CEO of the Methodist and Indiana University Hospitals and President and CEO of Clarian Health, in *Better Governance Begins with Greater Board Diversity*, which appeared in the May 2007 edition of *Trustee* magazine. He notes that if boards want to take a new approach, they need to bring new people to the table. “If we want a health care system that not only provides high quality care, but also functions within a sustainable economic model, we have to invite the whole community to help plan and develop system-wide improvement.”

These statements reflect a growing issue for boards—ensuring diversity among their members; that is, including members not only with experience, organizational, and finance skills, but being “inclusive of and sensitive to diverse backgrounds” including ethnic, racial, and gender perspectives. As Linda Galindo, a governance expert, said in the May 2002 edition of *Great Boards*, “You can’t integrate into the community, you can’t understand what’s going on, if you don’t have a reflection of the community on the board.”

WHAT IS DIVERSITY?

- ✓ **HUMAN:** race, sex, differently-abled, marital/family status, sexual orientation, ethnicity, age, military experience.
- ✓ **SOCIO-ECONOMIC:** education, income.
- ✓ **CULTURAL:** language, learning style, gender, historical differences, cross-cultural relationship/communication, religion, work style, classism/elitism, ethics/values, lifestyle, family-friendly practices.
- ✓ **SYSTEMS:** teamwork, innovation, re-engineering, strategic alliances, empowerment, quality, education, mergers, acquisitions.

SOURCE: Linda Galindo, presentation to HTNYS on September 9, 2006

A number of governance experts and hospital leaders from New York State talked about and provided guidance on tackling the issue of diversity in *Recruiting a More Diverse Board*, the topic of the Winter 2007-2008 edition of *Great Boards*. Among the practical steps recommended in the article are:

- Get the board to engage in a serious conversation about diversity, particularly having an explicit dialogue about how diversity will challenge traditional thinking.
- Make a visible commitment through the mission statement, strategic plan, or board development plan.
- Make the business case for diversity—to be successful, hospitals must assure community groups that their needs are being met.
- Examine community demographics to determine potential areas where there are gaps and where recruitment can occur—the strongest boards will recruit people who are integrated into their communities and can express the community’s values and needs.
- Develop a plan for identifying and securing prospective board members as well as a plan for orienting them once they become members of the board.
- Recognize that recruiting a more diverse board is the first step of an ongoing process.

Ms. Galindo also suggests that boards consider adding criteria for nominations to include that the individual represents a diverse segment of the community; brings expertise, knowledge, and background in a non-traditional aspect of health care; is involved in community activities; and is seen as a leader.

If boards are concerned about diversity, they may want to consider establishing a committee, council, or ad hoc group to develop a clear goal to attain diversity.

Just as diversity is important for the governing board, diversity among the organization's senior management is just as critical. The board, as part of its goals for diversity, should include a focus on diversity at all levels of the organization.

TERM LIMITS

The majority of boards now have term limits. It enables new board members to understand the kind of commitment they are making and ensures that new talent can be recruited at regular intervals. Term limits, as well as the details for reappointment after a time of inactivity, should be included in the bylaws. The most common board term limit is three consecutive, three-year terms. A member must commonly be off the board for one year before being eligible to serve another term.

FOR MORE INFORMATION . . .

Visit www.htnys.org/boardroom_basics for more information on board composition, recruitment, and diversity.



ROLES AND EXPECTATIONS OF TRUSTEES AND LEADERSHIP

A key way to ensure that roles and expectations are clear is by creating position descriptions for trustees and for the board chair.

Among the key duties to include in a board member position description are:

- adhering to fiduciary responsibilities (duty of care, loyalty, and obedience);
- disclosing and avoiding potential conflicts of interest;
- maintaining confidentiality;
- supporting decisions and policies of the board;
- defining and supporting roles delegated to management and medical staff; and
- engaging in regular self-evaluation.

The position description can also include details on attendance and participation expectations. Barry Bader suggests that part of the position description be that board members participate, ask questions, and challenge.

A new trend among boards is the creation of a board member contract that clearly details expectations and requirements. It is not a legal document, but a gentle reminder that there are obligations inherent in volunteering.

Reappointing trustees to the board should never be automatic. The nominating committee should assess: Did the trustee meet expectations for attendance and active participation? Did any of the issues of board conduct arise, such as breaches of confidentiality? Does a new job present a conflict of interest? Is he/she still contributing a necessary competency?

According to governance experts Dennis D. Pointer and James Orlikoff, in the book *Board Work*, the board must have a clearly written policy for trustee removal that is shared with all trustees as part of recruitment and orientation. It can include:

- violation of the board's conflict-of-interest or confidentiality policies;
- failure to attend a specific number of board meetings over time;
- verbal or physical abuse of other board members, physicians, or employees; and
- subverting board policies or decisions.

Defining the role and clear expectation of the board chair is also essential, since it is such a critical factor for effective governance. The board's effectiveness and development depends on its leadership. According to Mr. Orlikoff and Ms. Totten in *The Guide to Governance for Hospital and Health System Trustees*, the responsibilities of the board chair should include:

- ensuring that the organization's mission and vision are clearly articulated;
- ensuring establishment of board goals and objectives consistent with the organization's strategic plan;
- clarifying and managing relationships among leadership groups;
- setting meeting schedules and overseeing preparation of meeting materials;
- presiding over board meetings;
- ensuring effective recruitment, orientation, and development of board members;
- overseeing all committees;

- providing for regular board and individual trustee self-evaluation;
- conducting a personal self-evaluation;
- maintaining board policy and other resource manuals; and
- planning for leadership succession.

GETTING THE JOB DONE

COMMITTEES

Most health care governing boards seek to expedite and streamline the board's functions by appointing an appropriate number of committees to focus on priorities or particular issues of concern. Generally, committees are a subset of the board.

There are two types of committees—those established in bylaws (standing committees) and those formed to research specific issues or projects (often called ad hoc committees). Bylaws generally give boards the authority to form any type of committee it deems appropriate and enables the board to delegate certain powers to a committee. The board, however, is ultimately responsible for the work of a committee.

Often, non-board members are asked to sit on ad hoc committees to supplement the board's expertise. This is a growing practice and it is also a good method for broadening community participation, gaining additional expertise, cultivating new members, and developing stronger relationships overall.

The following committees are common among boards with a committee structure:

- **EXECUTIVE:** allows for expedient decision-making by board leadership.

FOR MORE INFORMATION . . .

Visit www.htnys.org/boardroom_basics for ideas to improve committee structure.



- **FINANCE:** monitors budget and approves capital expenditures.
- **NOMINATIONS:** oversees acquisition of new board members.
- **AUDIT:** reviews the organization’s accounting and auditing practices.
- **STRATEGIC PLANNING:** monitors the hospital mission and strategic plan.
- **JOINT CONFERENCE:** provides a forum for communication between board and medical staff leadership.
- **QUALITY IMPROVEMENT AND PATIENT SAFETY:** includes medical staff credentialing.
- **GOVERNANCE OR BOARD DEVELOPMENT:** includes education and self-assessment initiatives.

Other committees may include an executive compensation committee, a public/governmental relations/advocacy committee, and a development committee.

Committees can improve the speed of the board’s work, but they can also slow it down. To work best, each committee must have a specific assignment from the board and focus its attention only on priority issues. Committees should not be used as a substitute for effective management structures to handle the hospital’s operations.

All committees should have charters and workplans that include scope of task, form of work product (report, recommendation, evaluation), roles (who will do what), and a timetable with milestones. The committee’s work should be documented in the board minutes. At its conclusion, the committee chair reports findings and recommendations to the full board. In essence, committees act as workgroups for the full governing board—if action is required on the committee’s work and recommendation, then the full board votes and the decision is recorded in the minutes.

EFFECTIVE BOARD MEETINGS

Boards need to spend scarce time wisely. Board meetings are the ultimate venue for executing the complementary responsibilities of oversight and strategy. Collectively, the board must satisfy legal requirements and provide programmatic, financial, and ethical oversight. As strategists, board members shape the future of the organization. Equally important—but often overlooked—board meetings bring together the governing body responsible for the organization’s health and sustainability.

FOR MORE INFORMATION . . .

For more information on improving board meetings, visit www.htnys.org/boardroom_basics.



Duly called meetings are the main mechanism through which boards make organizational decisions. Often, meetings are the only time when the board as a whole gets together to execute its governing responsibilities.

The board chair, in cooperation with the CEO, creates the agenda for the meeting and then leads the meeting. Legal counsel should attend all board meetings, preview and approve the agenda, review and approve minutes, and offer advice as needed or as appropriate. It is important that the board has a clear agreement with legal counsel that clarifies that individual’s or firm’s role.

Most boards conduct their meetings using rules, such as Robert’s Rules of Order, that allow for democratic speech and action to preserve order and only permit one issue or business matter to be addressed at a time.

To be effective, the board meeting must have a clear, focused agenda. Many organizations are now using “consent agendas” to make the most of the limited time they have for meetings. A consent agenda is a practice by which mundane and non-controversial board action items are organized apart from the rest of the agenda and approved as a group, without discussion.

With a consent agenda, what might have taken an hour for the board to review, takes only five minutes. Because it promotes good time management, a consent agenda leaves room for the board to focus on issues of real importance to the organization and its future, such as the organization's image and brand, changing demographics of its constituents, or program opportunities created by new technology. Commonly found items on a consent agenda include: minutes of the previous meeting, confirmation of a decision that has been previously discussed, the chief executive's report, committee reports, informational materials, updated organizational documents, and routine correspondence.

Governing is about more than board meetings—you need to make an effort to learn.

— Arthur Dawson, Trustee,
New York Hospital Queens

To ensure that board members are prepared and can have an informed discussion at the meeting, it is important to distribute information well in advance of the meeting. At a minimum, board members should receive the following prior to a board meeting: agenda, minutes from the previous meeting, topic reports or information summaries, additional background reading, and concise summaries with clear recommendations and which specify clearly board action required.

Minutes provide an official record of what takes place during the meeting—they convey all actions taken and decisions made and should include date, time, location, who attended, who was absent, and all actions requiring a vote of the members. Minutes should be brief and provide the essence of ideas and options; they should not be a word-by-word transcription. Often done by staff, minutes should be distributed timely and kept indefinitely.

TRUSTEE ORIENTATION AND ONGOING EDUCATION

Every health care governing board should have a structured, planned orientation program that familiarizes new trustees with the organization, the issues facing the organization, board structure and operations, and the roles and expectations for individual trustees. Key issues that should be addressed include:

ORGANIZATIONAL INFORMATION

- history of the organization
- mission, vision, and values
- organizational chart

POLICIES AND PROCEDURES

- bylaws, duties, and job descriptions
- current strategic plan
- financial statements, ratios, and goals

BOARD-SPECIFIC INFORMATION

- trustee expectations, such as attendance and education
- roles and responsibilities
- fiduciary and legal duties
- conduct of meetings
- conflict-of-interest issues

HEALTH CARE INFORMATION

- background on the current national health care environment
- definitions of key health care terms
- components of the health care payer mix
- future trends

- how to serve today's more demanding health care consumer
- brief overview of critical issues
- significant issues and decisions made in the past 12 months

Orientation can be conducted using a variety of approaches, including formal educational sessions, social gatherings to meet existing trustees and senior leaders, pairing new trustees with experienced board members who serve as mentors, use of a trustee manual, and observation of board and/or committee meetings. Some boards use electronic communication to supplement their orientation, such as password-protected areas of their organization's Web site.

Dennis Pointer, a Seattle-based governance expert, stated in *Trustee Magazine* that, at its best, orientation should be a series of well designed activities that last the better part of the first year of a board member's tenure.

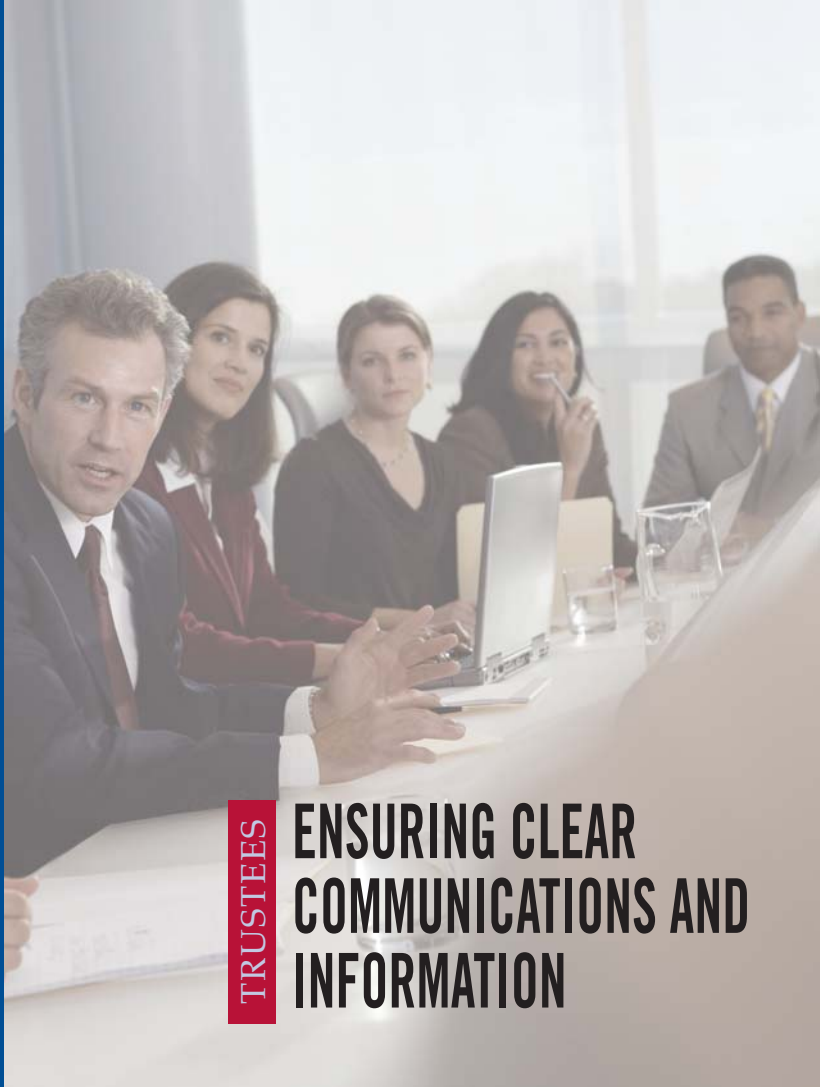
While a comprehensive orientation program is critical to preparing trustees for their role, orientation should not stop with these initial activities. Most trustees are not health care professionals, and it takes time and ongoing education to learn about the many health professions, local health care needs, and how health care trends impact the organization. Board retreats; an educational item on each meeting agenda; background reading; surveys of board member interests and concerns; and participation in local, state, and national conferences are all ways in which board members can stay abreast of what is happening in health care.

FOR MORE INFORMATION . . .

Resources related to board education and orientation can be found at www.htnys.org/boardroom_basics.



IV. ENSURING CLEAR COMMUNICATIONS AND INFORMATION



TRUSTEES

ENSURING CLEAR COMMUNICATIONS AND INFORMATION

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ENSURING CLEAR COMMUNICATIONS AND INFORMATION

Effective communication is essential to the success of any organization, and it is a must for health care governing boards. Given the complexity of health care organizations and the dynamic nature of the health care environment, the information trustees obtain can often be overwhelming and not very clear—thus, it is important to ensure that trustees are provided with clear, concise information that helps them make informed decisions.

Governance expert John Carver suggests that boards need three types of information:

- **DECISION INFORMATION** is used to make decisions, such as establishing selection criteria for the CEO. This type of information looks to the future and is not designed to measure performance.
- **MONITORING INFORMATION** enables the board to assess whether its policy directions are being met. It looks to the past and provides an assessment of the organization's performance against established criteria; an organizational dashboard is an example of monitoring information.
- **INCIDENTAL INFORMATION** is general information for the board and not related to action, such as committee reports.

The board should decide what information it needs, how often it wants it, and in what form. Governance expert Barry Bader offers seven guidelines for developing effective board information. He recommends that the information be:

- **CONCISE:** Is the information communicated as quickly or as briefly as possible?
- **MEANINGFUL:** Is information presentation in relationship to a significant factor, such as a goal set by the board, past performance, or comparative data?
- **TIMELY:** Is it relevant to the board’s current agenda?
- **BEST AVAILABLE:** Can better information be provided?
- **IN CONTEXT:** Is it clear why this information is important?
- **GRAPHICALLY PRESENTED:** Could the information be presented better graphically than in words?

Many health care governing boards are now using clear, easy-to-understand report cards and dashboards for education and measuring progress. These dashboards summarize key data indicators of organizational performance. Report cards and dashboards provide easy-to-understand, “big picture” information that shows comparisons to national benchmarks as well as measures an organization’s performance against its own goals. For example, organizations should achieve consensus on the measures that will effectively chart progress for their agreed-upon goals; these measures can include mortality rates, infection rates, length of stay, financial performance, and community health measures—keeping in mind that these indicators and measures will likely change over time as hospitals meet goals and create new ones. Likewise, there appears to be agreement that dashboards should be “visual” reports—color codes that denote progress for each of the dashboard measures are an important element.

Achieving consensus on the dashboard indicators, the format, and look of the tool, and a plan for educating trustees, executives, and clinicians on the use of the information are all critical.

In its newsletter, *Board Café*, CompassPoint Nonprofit Services suggests that boards have the following written documents:

COMPLIANCE, FINANCIAL, AND LEGAL OVERSIGHT

- **INTERNAL REVENUE SERVICE FORM 990:** To be reviewed annually by the board president before submission and distribution to full board.
- **AUDIT:** Copy of full audit to board president, treasurer, finance committee—board members can ask for full report.
- **MONTHLY OR QUARTERLY FINANCIAL STATEMENTS:** Showing year-to-date income and expenses compared to budget.
- **SALARIES, BENEFITS, AND PERKS:** For the top staff and a salary rate chart showing the range of salaries for each category of employee annually.
- **DIRECTORS AND OFFICERS LIABILITY INSURANCE**
- **LEGAL DOCUMENTS:** Related to legal actions, lawsuits, or settlements (in executive session).

STRATEGIC INFORMATION

- Articles about trends in the industry, funding, and political environment.
- Periodic reports on program work, statistics, and impact.
- Annual updates on patients and clients: Who has used our services or facilities?

INFORMATION THAT SUPPORTS BOARD COHESION AND LEADERSHIP

- Brief biographies about board members and updates on their professional accomplishments, personal news, and other volunteer activities.
- When reporting on an item, show specific ways that board members can help.
- Appreciation for individual board members as well as appreciation for the board as a whole.

STAYING UPDATED BETWEEN MEETINGS

Given the rapid pace of change in health care, it is important for trustees and governing boards to identify ways to stay abreast between meetings. Board Source, a national organization that provides governance tools and resources, suggests the following methods for staying updated:

- Turn board manuals and board packets into electronic documents.
- Send updates as attachments in e-mail.
- Encourage each board member to share helpful Web sites and available documents with peers.
- Consider creating an intranet site where board documents can be stored safely and provide board members with easy access.
- Create an e-newsletter for regular communication between board members and the chief executive.
- E-mail minutes to all board members for review and comment.

RECOMMENDATIONS FOR COMMUNICATING WITH THE COMMUNITY

- ✓ Designate a spokesperson.
- ✓ When talking about uncompensated care, know your numbers and how they were calculated.
- ✓ Review your Internal Revenue Service Form 990 and other public documents.
- ✓ Educate your board, employees, volunteers, and staff about the many ways you give back to your community.
- ✓ Highlight community programs in presentations to community groups.
- ✓ Draft a current or past trustee to act as spokesperson if there is an inquiry about how executive salaries are set.
- ✓ Articulate a clear, concise statement of charity care, discounting, billing, and collection policies.
- ✓ Prepare case studies of individuals who have benefited from your policies.

SOURCE: *American Hospital Association*

THE BOARD'S ROLE IN EXTERNAL COMMUNICATION

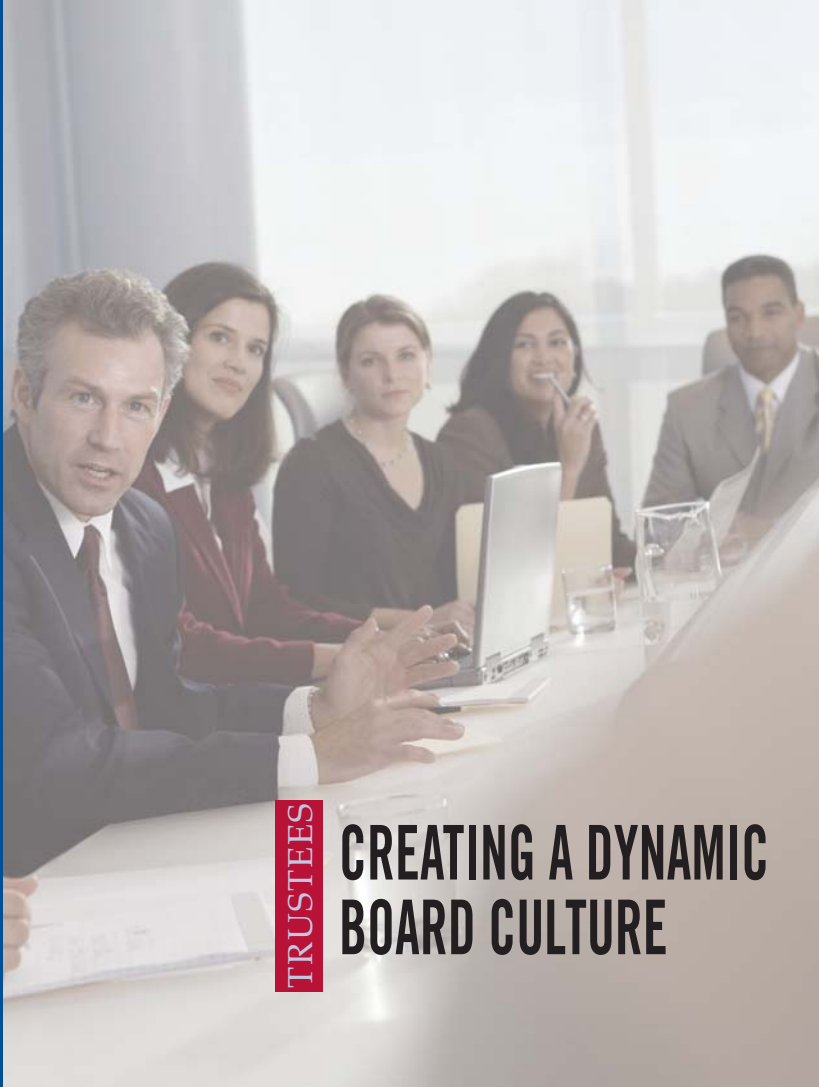
Trustees are often called upon to speak on behalf of their hospital or questioned about what is happening at the organization. The board plays a powerful role in how the hospital is perceived by the community—trustees must speak with one voice and provide consistent messages to the community, particularly on thorny issues. All board members should be able to talk about their hospital's:

- financial condition;
- quality and patient safety initiatives;
- community benefits;
- financial aid policy and charity care guidelines; and
- issues affecting the community (e.g., emergency room overcrowding).

Many hospitals provide trustees with key message points to ensure that the community is receiving consistent information. Trustees should always keep in mind the organization's confidentiality policy.

Generally, board members do not get involved as spokespersons for the media, except on controversial issues that the board deals with directly, such as executive compensation. The decision when to deploy a trustee as a media spokesperson should be made by the board and senior leadership as part of an overall strategic communications plan. Many boards create a crisis communication and action plan, to be deployed in the event of a sentinel, or unexpected, event.

V. CREATING A DYNAMIC BOARD CULTURE



TRUSTEES

CREATING A DYNAMIC BOARD CULTURE

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CREATING A DYNAMIC BOARD CULTURE

As a trustee for 15 years, I have been part of and seen the cause and effect of change—particularly cultural change.

— Neboysa Brashich, Trustee,
Eastern Long Island Hospital

MOVING FROM GOOD TO GREAT GOVERNANCE

According to governance experts, the culture of the board—that is, the board’s norms and values and the way board members work in that context—has a lot to do with effective governance. A key question today is: What are the attributes and characteristics of an effective board culture?

Building an Exceptional Board: Effective Practices for Health Care Governance, a recent study by the Blue Ribbon Panel on Health Care Governance, brought together by the Center for Healthcare Governance of the American Hospital Association, identifies the following characteristics of an effective board culture:

- actions and behaviors demonstrating commitment to the organization’s mission;
- well-defined governance processes;
- broad skills and diverse backgrounds of trustees;

- tracking organizational performance benchmarks and taking action when performance is below par;
- strategic focus;
- engagement demonstrated by high attendance rate, genuine enjoyment of the governance process, mutual respect among board members, appreciation of each other's skills and backgrounds, and adequate advance preparation by board members for meetings;
- ongoing education;
- explicit, high-performance expectations for board members; and
- constructive dialogue and debate are welcome.

The challenge for governing boards is to look at governance in a new light and to explore new thinking. In the book *Governance as Leadership: Reframing the Work of Nonprofit Boards*, authors Richard P. Chait, William P. Ryan, and Barbara E. Taylor suggest that effective governance is truly a “triangle” composed of three modes of governance: the fiduciary, strategic, and generative modes.

Today's health care governing boards are, for the most part, governing well in both the fiduciary mode (where boards are concerned primarily with the stewardship of tangible assets) and the strategic mode (where boards create strategic partnerships with management). The opportunity now is for boards to embrace the generative mode of governance in which boards provide a less recognized but critical source of leadership. Generative governance focuses the work of the board, together with

other leaders and stakeholders, on making sense of circumstances facing the organization, inviting questions and alternative hypotheses, shedding new light on perceived problems and opportunities, and finding and framing new problems and opportunities in ways that may change values, beliefs, and behaviors. As noted by the Blue Ribbon Panel on Health Care Governance, this mode of thinking and governing spans board policymaking, strategy setting, and decision making.

DEFINING THE BOARD'S RELATIONSHIP WITH KEY STAKEHOLDERS

While 9/11 was a horrible experience, it brought to the forefront what a hospital is and what it can be— a living organism of caring and hope.

— Mary Ellen McEvily, Trustee,
St. Vincent's Medical Center

As leaders for their hospitals and ambassadors to their communities, health care trustees play an essential role in building and strengthening relationships with key constituencies. These constituencies include the members of the board, employees, physicians, patients and families, the media, elected representatives, civic groups, employers and business, regulators, consumer groups, and other local stakeholders.

It's important that the board of trustees have a presence on the hospital campus. At our hospital, we have a "shadow a nurse" program for trustees, which has furthered trustee education and, perhaps more importantly, increased recognition for the nurses. Trustee visibility makes a difference.

— Peter Hamilton, Trustee,
O'Connor Hospital/Bassett Healthcare

In *The Guide to Governance for Hospital and Health System Trustees*, James E. Orlikoff and Mary Totten note that a major board responsibility is relationship management. They note that:

"The board discharges a significant amount of its governance responsibilities in collaboration with other leadership groups within and outside of the health care organization or system. It is therefore important for trustees to be aware of and seek to build and maintain relationships with several key collaborators and stakeholders. Maintaining appropriate linkages is a primary governance responsibility because the needs and perceptions of these groups help shape the organization's mission and determine its survival. Boards that foster strong and productive relationships with key leadership partners understand the direct impact these relationships have on the effectiveness of the governance process. In fact, health care organizations can be described as interlocking systems of

incredibly complex and fragile relationships. The quality of these relationships and the smoothness of their interaction directly contribute to the overall effectiveness of the health care organization.”

Understanding traditional and emerging stakeholders and constituents and promoting transparency in reporting to them about the organization’s performance are two board practices recommended by the Blue Ribbon Panel on Health Care Governance. The Panel identified the following approaches for effective governance to implement these recommendations:

UNDERSTANDING TRADITIONAL AND EMERGING STAKEHOLDERS AND CONSTITUENTS

- In identifying key stakeholders, be especially attentive to meeting the needs of underserved populations in the community.
- Build into the board’s ongoing activities periodic review of the needs of current and emerging stakeholders. Include in this review a discussion of how the organization should prioritize and address these needs.
- Ensure that the organization establishes a working environment that allows it to attract and retain the best employees and maintain productive partnerships with physicians.
- Be mindful of the importance of the board’s relationship with the organization’s CEO and put in place formal processes to discharge key governance responsibilities, such as CEO recruitment, evaluation, compensation, and succession planning.

- Participate in advocacy efforts on behalf of the organization's stakeholders.
- Board members should be the voice of the organization's stakeholders.

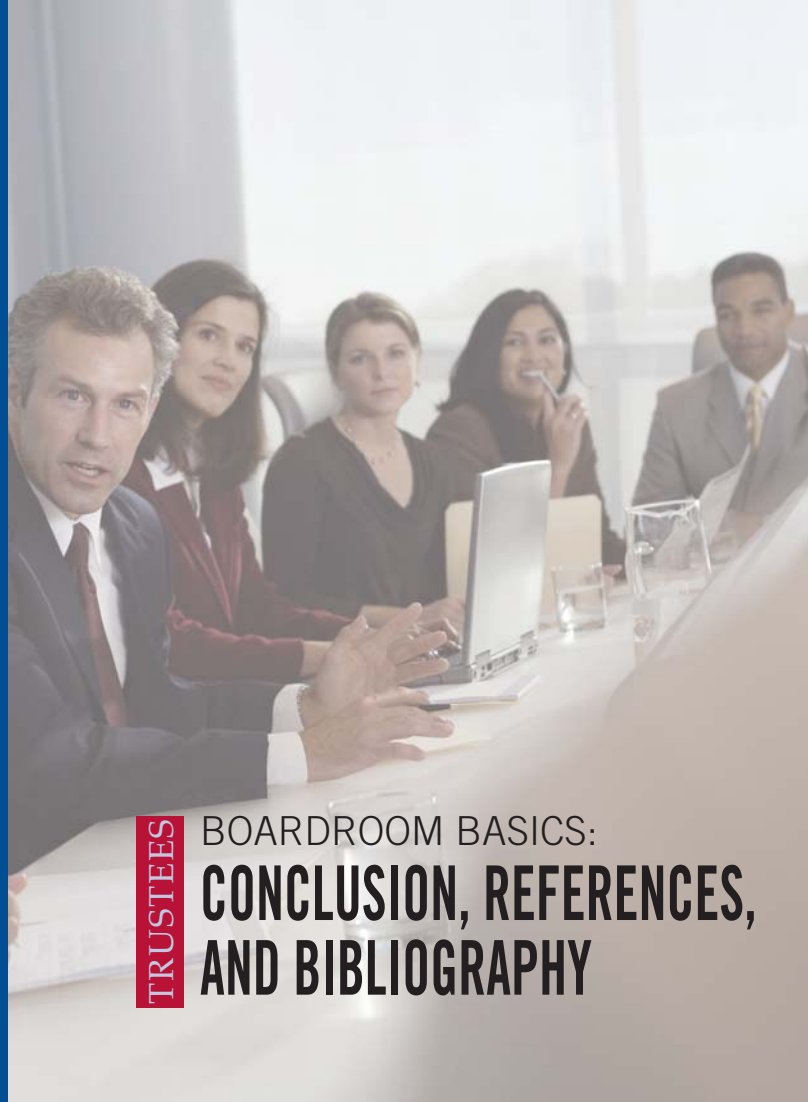
PROMOTING TRANSPARENCY IN PERFORMANCE REPORTING

- Publish quarterly financial reports for financial stakeholders, including rating agencies and investor groups.
- Send internal monthly financial reports to medical staff and department heads.
- Publicly report clinical quality and patient safety outcomes and the results of patient satisfaction surveys.
- Quantify the level of benefit the organization provides to the community each year and publicly report this information.

FOR MORE INFORMATION . . .

Visit www.htnys.org/boardroom_basics for more information on board culture.

CONCLUSION, REFERENCES, AND BIBLIOGRAPHY



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BOARDROOM BASICS: **CONCLUSION, REFERENCES, AND BIBLIOGRAPHY**

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CONCLUSION

An effective, accountable governing board is critical to hospitals' and health care organizations' ability to fulfill their missions of serving and meeting community needs. This guidebook helps to lay the foundation for new trustees and enables existing trustees to “brush up” on the basics.

There are many other tools and resources available on each of the topics covered in this document. Trustees are encouraged to visit www.htnys.org/boardroom_basics for more details and information on all the areas important to the knowledge base of health care governing board members.

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