Session 52AB
The Future of Healthcare Governance: Meeting Board Challenges in Unforgiving Times

Presented by:
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Disclosure of Relevant Financial Relationships

The following faculty of this continuing education activity has no relevant financial relationships with commercial interests to disclose:

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“He who uses a crystal ball, eats a lot of ground glass.”
Learning Objectives

1. Understand *trends impacting boards’* size, composition, diversity, compensation, transparency, accountability, member skill sets, and the *drivers of these trends*

2. Understand *11 best practices* that can be adopted to improve board effectiveness in the future

Agenda

- **Industry Leaders Interviewed**
  - Themes:
    - Board Size
    - Composition and Diversity
    - Complex Clinical Enterprises
    - Enterprise Risk Management
    - Board and CEO Succession
    - Scarcity of Directors
    - Compensation
    - Transparency and Accountability
    - Continuous Improvement

- **The Board’s “Checklist Manifesto”**
  11 Steps to Improve Board Effectiveness

- **Questions & Discussion**
Change

Every few hundred years, throughout Western history, a sharp transformation has occurred. In a matter of decades, society altogether rearranges itself: its world view, its basic values, its social and political structures, its arts, its key institutions. Fifty years later, a new world exists, and the people born into that world cannot even imagine the world in which their grandparents lived and into which their own parents were born. Our age is such a period of transformation.
BOARD SIZE

Board Size

• Healthcare boards will become smaller and fewer in number

• Most boards are still too big!

• Larger boards mean:
  – More “social loafing”
  – Less accountable
  – Less sense of ownership
  – Less active discussion and engagement
  – Less preparedness for meetings
  – Less director satisfaction
  – Less nimble; slow to take action

• Pressure to improve governance performance will lead to smaller boards
Composition and Diversity

• **Boards will include new skills**
  – Clinical
  – Systems integration
  – Population health
  – Chronic illness care
  – Insurance risk
  – Cyber Security
  – Social media
  – Etc.
Composition and Diversity

**Drivers**
- *Increased focus* on the *clinical enterprise*
- *More CEOs will be physicians, nurses* and/or *others* with *clinical backgrounds*
- *Patient centeredness*
- *Quality and safety*
- Emphasis on *director independence, “outside”* directors, *“industry experts”*

Composition and Diversity

**Focus On**
- *IRS requires hospitals* to conduct *community needs assessments* every three years with implementation strategies
- *Physician integration*
- *Insurance risk*, e.g., shift to pay-for-performance, bundled payments, population-based payments
Composition and Diversity

• **Boards will become more diverse**
  – Race
  – Gender
  – Age
  – Ethnicity
  – Geography

• **Drivers**
  – Vision, strategy, and demography
  – Social pressures
  – **Recent presidential election results** (America... the new "melting pot")
  – **Watch Europe's** push for **mandatory quotas** for women
  – **Quotas are law** in France, Spain, Netherlands, Norway, Belgium, and Italy

A properly constituted board with diverse perspectives is better able to govern effectively!

Composition and Diversity

• **Diversity helps the board to:**
  – Better **understand the issues** faced by the organization
  – Have a mix of perspectives to **deliberate the strategic imperatives** of the enterprise

*Diversity will only happen...when board leadership makes it a priority*

But... finding directors with the right skills and experience continues to be a top priority!
Complex Clinical Enterprises

- **Boards will govern larger and more complex clinical enterprises**

- **Drivers**
  - Consolidation in the industry (payers and providers) *will accelerate: Scale Matters!*
  - Economic pressures
    - Revenue constraints
    - Margins squeezed
    - Sales tax/property tax exemption issues
  - Increased focus on the *entire continuum of care*
    - Hospital (physician integration)
    - Insurance risk integration
    - Managing the health of defined populations
- **This transformation will serve as a catalyst to upgrade governance!**
Enterprise Risk Management

- **Boards will embrace enterprise risk management**
  - Strategic
  - Operational
  - Financial
  - Compliance
  - Security

- **Drivers**
  - Fewer economic safety nets
  - Physician hospital integration
  - Size and complexity of the enterprise
  - Electronic Health Records (data breeches)
  - Pressure for reporting quality metrics may result in more fraud!
Enterprise Risk Management

- **Drivers (Cont’d)**
  - HIPAA privacy and security risks
  - High turnover of personnel
  - Outsourcing of services
  - Changes in economic, political, regulatory, and social landscape
  - Fraud and abuse cases are on the rise
  - Risk of the “unexpected crisis”
  - Healthcare data breaches on the rise
  - Whistleblower cases have doubled in five years

- Advocate
- Cornerstone Healthcare
- Detroit Medical Center
- Emory Healthcare
- Fairview
- HealthSource of Ohio
- Intermountain Healthcare
- Los Angeles County
- NorthShore – LIJ
- Ropper Hospital
- St. Joseph Health
- Tuomey Health
- UCSF
- UPMC
- Valley View Hospital

RESPONSIBILITY FOR RISK
OVERSIGHT LIES WITH THE
FULL BOARD WITH AN INTENSE
FOCUS ON RISKS THAT WILL
DAMAGE YOUR “BRAND!”

What don’t we know…
that we should know?
Board and CEO Succession

- **Board and CEO succession will become more of a priority**
  - Less than 20% of hospitals and health systems have a good succession plan in place

- **Drivers**
  - CEO turnover at an all-time high: 20%!
    - Nearly 1 in 4 hospitals has had 3 or 4 CEOs in the past five years
  - 40% of new CEOs fail within 18 months
  - A poor choice of CEO can be costly and embarrassing
    - CEOs recruited from outside retain ≤ 30% of senior executives
    - Boards are being held accountable for the failure of their CEOs
  - Limited pool of highly-qualified CEO candidates
Good governance requires it!

– *Board and CEO succession* planning is a fundamental responsibility of the board

– Successful transitions rarely *just happen*; they require careful planning by the board and the CEO

High-performing organizations have good track records of promoting from within

SCARCITY OF DIRECTORS
Scarcity of Directors

- Highly-qualified directors will be difficult to find and succession planning for boards and board officers is essential

Drivers
- Board work requires more time than ten years ago
- New rigors and risks of board membership
- Personal liability concerns
- More scrutiny re: “conflict of interest issues"
- More CEOs consumed in their “day jobs”
- Board-imposed limits on outside board participation
- Reputational risk: hospital/health system scandals

- AHERF
- Allina
- Beebe Medical Ctr
- Cooper Health System
- Fairview
- Highmark
- NorthShore – LJ
- NY Hospital for Special Surgery
- Parkland Health and Hospital System
- Penn State
- Powell Valley Healthcare
- Toumey Health
- Univ. of Miami School of Medicine
- Univ. of Texas Southwestern Med. Ctr.
- WakeMed
- White County Memorial Hospital

COMPENSATION
Compensation

- **More boards**, especially of larger health systems, **will compensate directors**

- **Drivers**
  - **Time** commitment **required**
  - A **limited pool** of highly competent candidates
  - Increasing focus on **independence**
  - Need to recruit directors who possess **unique skills**
  - The **value** of appointing “**outside directors**” / **industry experts**
  - **Competition for best candidates**

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The real value in compensating directors is in the “social contract” it establishes with the board

The decision of whether to compensate is unique to the culture of every organization and should be carefully considered
TRANSPARENCY AND ACCOUNTABILITY

Transparency and Accountability

• **Boards will become more transparent**

• **Drivers**
  – *Internet and 24/7 media* attention
  – *New IRS Form 990*
  – *Hospital Compare*: CMS quality data initiative on 4,000 hospitals
  – *Physician: CMS Quality Reporting Program*
  – Aggressive *State Attorneys General*
  – *Pressure from government, consumer, and purchaser groups*
  – *Disclosure mandates*; e.g., executive compensation
Transparency and Accountability

• **Drivers (Cont’d)**
  – Non-binding **resolutions**; e.g., “Say on Pay”
  – The **public will demand it!**
  – **The need to demonstrate quality, safety, customer service, and low cost**
  – **Need to demonstrate the “Value Proposition”**, i.e.,
    • Wellness and disease prevention
    • **Better** health **outcomes / better patient experiences / lower costs**

*Transparency builds trust inside and outside the organization!*

*If you have nothing to hide... transparency is not an enemy!*
Transparency and Accountability

• **Boards will be more accountable for the performance of the enterprise**
  - Cost
  - Quality
  - Safety
  - Community benefit
  - Community health improvement

• **Drivers**
  - ACA
  - ACOs
  - Moving from volume to value
  - More transparency
  - Government agencies
  - Regulators
  - Joint Commission
  - Rating agencies evaluating debt
  - Insurers writing D&O insurance
  - More assertive and discerning consumers

Accountability for the health status of our communities is where we are headed

Accountability requires boards to look at all elements of the operation from a risk perspective

Hospital and health system boards will incur increasing scrutiny relative to their performance and best practices!
Continuous Improvement

- **Best practices will become the norm**

- **Drivers**
  - Pressure from:
    - Debt rating agencies
    - Government
    - States Attorneys General
    - Joint Commission
    - Insurance companies
  - Changing regulations
  - Risk of liability
  - Risk of embarrassment
  - Board education
  - Public expectations
All standing committees must have able leadership and clearly defined board-approved charters.

Robust governance committees will drive adoption of best practices.

Ongoing evaluation and improvement using “hard metrics” as a critical path to excellence.

High performing boards will promote “intentional governance” that embraces best practices.

Continuous Improvement

- In the future, boards will be expected to say to the public:
  - Here is what we are accountable to you for...
  - Here is how we are doing...
  - If there are ever any problems / deficiencies, here is what we are doing about it!

Nothing builds trust and accountability more than total transparency!
Boards [will] need to assure they have a robust capacity for regular self examination and willingness to change ahead of any major crisis so they can lead their organizations as the industry around them transforms.”

— Futurescan 2013
THE BOARD’S “CHECKLIST MANIFESTO”
11 Steps to Improve Board Effectiveness

✔ | Focus on Strategic Issues Facing the Enterprise
✓ | Oversight of Community Benefit and Community Health Improvement

✓ | Audit Committee with Necessary Skills
| Audit Committee with Necessary Skills (Cont’d):

- Lessons Learned: **Crisis Preparedness**

  - “Break the Glass” Strategy
  - “What If” scenario planning
  - Crisis Management Plan
  - Appropriate steps and who is responsible for carrying them out
  - Communications protocol / internal and external

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| Audit Committee with Necessary Skills (Cont’d):

- Lessons Learned: **Elevate the status of compliance**
  - *Chief compliance officers* or chief audit executives report directly to the board

  - Boards should have **regular compliance updates**
    - Code of Conduct Training for employees is important
    - Requires ongoing monitoring and reporting to the board

- **ASK THE “HARD QUESTIONS!”**
Audit Committee with Necessary Skills (Cont’d):

- Lessons Learned: Enterprise risk management is of such importance that it needs to be integrated into all board decision making as an integral component of your strategy, culture, and business operation of your enterprise!

Compensation Committee
| Compensation Committee |

- Committee Charter
- Board-approved Compensation Philosophy
- Focus on total compensation
- Rebuttable presumption of reasonableness
- Meets 3–4 times per year with periodic continuing education
- Compensation fully disclosed to the board

- Tally Sheet

- SAMPLE

2017 CONGRESS ON HEALTHCARE LEADERSHIP
✓ | Governance Committee

✓ | Formal CEO Evaluation Process
✓ | Regularly-scheduled Executive Sessions for Board and Committee Meetings

✓ | Meaningful Conflict-of-Interest Policy
A Formal Evaluation Process; Makes Us Better!

- Board
- Committees
- Committee chairs
- Board members

✓ | Appoint Outside Directors
Culture that includes Collegiality and Respectful Dissent

The Board’s “CHECKLIST MANIFESTO”
11 Steps to Improve Board Effectiveness

1. Focus on Strategic Issues Facing the Enterprise
2. Board oversight of community benefit and community health improvement
3. Audit Committee with Necessary Skills
4. Compensation Committee with Necessary Skills
5. Governance Committee with Necessary Skills
6. Formal CEO Evaluation Process that Involves the Whole Board
7. Regularly-Scheduled Executive Sessions for Board and Committee Meetings
8. Meaningful Conflict-of-Interest Policy and ENFORCE IT!
9. Board Evaluation, Committee Evaluation, and Board Member Evaluation
10. Appoint “Outside Directors”
11. Culture that includes Collegiality and Respectful Dissent
“Good enough simply isn’t good enough!”

QUESTIONS AND DISCUSSION
Presenter Biography & Contact Info
Kenneth Ackerman, Jr., FACHE, FACMPE

Mr. Ackerman, former president of Geisinger Medical Center, is an acknowledged expert on compensation plans for senior executives, governance, healthcare policy development issues, integrated delivery systems, medical group practice operations, and strategy and program coordination with physicians. He is the author of numerous articles, most recently authored a book chapter on the governance of executive compensation, and co-authored two books on integrated healthcare. He has served on numerous boards and committees including seven years as a member of HHS’s National Advisory Committee on Rural Health and as a director of the Healthcare Research and Development Institute. He currently serves on the board of Health Insights, 1-800-Doctors, Keystone ACO, UNIPHY, and the Eli Lilly National Board of Advisors.

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Panel Member Biography
Larry Prybil, Ph.D., LFACHE

Lawrence Prybil retired as the Norton Professor in Healthcare Leadership at the University of Kentucky in 2016. He also is a Professor Emeritus at the University of Iowa, where he served as Associate Dean and Senior Advisor to the Dean in the UI College of Public Health. Before returning to Iowa to participate in building its new College of Public Health, Dr. Prybil held senior executive positions in two of our country’s largest nonprofit health systems for nearly twenty years, including ten years as CEO for a six-state division of the Daughters of Charity National Health System.

Dr. Prybil received his master’s and doctoral degrees from the University of Iowa’s College of Medicine and is a Life Fellow in the American College of Healthcare Executives. He has served on the governing boards of hospitals, health systems, state hospital associations, the American Hospital Association, and other nonprofit and investor-owned organizations.

Dr. Prybil has authored or co-authored well over 100 publications. He is recognized for expertise in governance and executive leadership. He has directed a series of national studies regarding governance practices in nonprofit hospitals and health systems, and recently completed a study of successful multi-sector partnerships focused on improving the health of communities they jointly serve.
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