

# Kentucky Trustee

For Kentucky Hospital Governing Board Members Summer 2022

## BOARDROOM BASICS

### Basics of Good Governance: Review is Important for New and Experienced Trustees

A strong and robust new trustee orientation has always been the foundation for success when onboarding new board members. But as the COVID-19 pandemic has stretched on, many boards are recognizing the importance of reviewing governance basics with all board members. Many hospitals and health systems engaged in little education in the last two years. In addition, boards have experienced turnover without properly onboarding new trustees.

Since the pandemic began in 2020, hospital and health system boards have pivoted to focus primarily on immediate, pressing needs. As organizations return to a new normal, experienced and new board members both are asking for a renewed focus on governance education and boardroom basics.

This newsletter is dedicated to the critical components that lay the foundation for board success: ensuring proper resources and processes are in place, and reviewing the boardroom basics trustees should understand.

#### Ensure an Up-to-Date Board Manual

A well-designed board manual not only provides new trustees with

valuable information about the organization and the board, it also serves as a reference for all trustees throughout their tenure on the board. A comprehensive board manual should include, but not be limited to:

- Information about the hospital or health system, including the mission, vision and values, organizational history, and services provided.
- Information about the community served.
- An overview of the health care environment, including the impact of the

COVID-19 pandemic, shifts in reimbursement, health care transformation and other trends, such as workforce needs and changes in competition.

- Pertinent organizational documents, including the organization’s strategic plan, community needs assessment, and annual report.
- Current financial and quality information.
- Governing documents, including board bylaws, policies and procedures, and the conflict of interest disclosure statement.
- A glossary of common health care terms and acronyms.
- A list of board members and executive staff with contact information, and board committee and meeting schedules.

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## PRESIDENT'S NOTEBOOK

In an effort to increase the public's awareness of the role KHA plays in Frankfort and Washington on behalf of our member hospitals and the communities they serve, we are creating the **KHA Talking to Kentucky Tour**.

Our goal is to spend a day in counties across the commonwealth talking about KHA, what we do and the state of the hospital industry in Kentucky. On that visit, we plan to schedule a KHA representative to speak to a community group, such as a rotary lunch or Chamber of Commerce meeting, meet with local elected officials and local press and give a state and federal legislative update with your hospital board and executives.

During our visit, we want to leave the people we speak with, both in the community as well as those with your organization who may not be as familiar with the role KHA plays, with a few key points.

First, we'd like them to learn a little about the history of the KHA and its role in representing local hospitals and the communities they serve.

Second, we want to highlight the impact KHA has made and is making in Frankfort and Washington for the hospital, and by extension, the community at large.

Third, we want to reinforce the role hospitals play, not just in providing health care but as good community partners as well. Local hospitals are health care providers, economic engines and major employers. But people often forget they are also one of the most philanthropic local businesses and tend to be very active in civic organizations such as local Chambers of Commerce, Rotary Club, and Lions Club. We know you're often hesitant to toot your own horn for the good work you do, so we want to help you spread the word!

Finally, we want to talk about the economic impact of hospitals to the state and local community while also highlighting some of the challenges facing hospitals and health care as a whole as we move forward into a post-COVID world.

When we leave the county at the end of the day, it is our hope that we will have educated community leaders, elected officials and the local press on who KHA is and what we do for the area and its members, reminded them of the good work you are doing in their hometown, and have made some new allies when we need advocates to join in the fights in Frankfort and Washington.

We are excited for this new initiative and look forward to our tour of the commonwealth.

Sincerely,



Nancy Galvagni, President  
Kentucky Hospital Association



**Nancy Galvagni**  
*President and CEO*

## Governance Notebook

### **KHA Health Policy Conference on November 11**

Save the date to join your fellow health care leaders on November 11 for the annual KHA Health Policy Conference. This program is a great way for hospital chief executive officers, board chairs, trustees, other hospital executives, government relations staff and medical staff members to stay informed of legislation that may affect their hospital, facilities and community.

The conference will present the latest in state and federal legislative issues and regulatory concerns from the Kentucky General Assembly. Please talk with your hospital CEO about attending and watch for details coming soon at [www.kyha.com/events](http://www.kyha.com/events).

### **Do you have ideas for future issues of the *Kentucky Trustee*?**

Our goal is to provide you with the information and knowledge you need to lead your hospitals forward in today's rapidly changing environment. Tell us what you think, and what you would like to see in future issues of the *Kentucky Trustee*.

#### **Write or call:**

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time for the Chief Officer or Director to provide an overview of their area and responsibilities.

### Boardroom Basics: The Board's Fiduciary Responsibility

*(Continued from page 1)*

Referencing the manual throughout the onboarding process will help to familiarize trustees with the value of its contents. Regularly updating the manual with new information will ensure it remains a relevant and useful resource for trustees.

### Consider Trustee Tours

Whether board members are new or have served on the board for years, they may feel somewhat disconnected from the organization as a result of the pandemic. Visiting the organization's facilities helps board members to see first-hand the challenges experienced by staff and the impact the organization has on the community. It also helps maintain or re-establish connections and trust between the board and hospital employees and leaders.

If board members have not been in the hospital or health system's facilities for a while, the entire board should engage in tours. This often includes a visit to each key department or service area, an introduction to the Chief Officer or Director of each area, and adequate

For hospital governing boards, fiduciary responsibilities and their related issues of accountability and trust are complex. Boards have a two-way responsibility: they must act in the best interests of both the hospital and the communities their hospital serves.

Legally, board members must take care to:

- Become thoroughly informed before making a business decision (*Duty of Care*)
- Put the needs of the organization first when taking responsibility for its operations (*Duty of Loyalty*)
- Abide by laws, regulations, and standards of the organization's operations (*Duty of Obedience*)

These three main fiduciary responsibilities must be taken seriously by every board member, and may be applied in a court of law to determine whether or not a board member has acted improperly.

### Boardroom Basics: Understanding the Mission, Vision and Values

Too often hospital leaders develop mission, vision, and values statements, and then don't make meaningful strategic use of these critical statements. When properly developed and used, these three statements are the primary driver of every governance discussion and decision.

*The mission is the core purpose of the hospital or health system.* It should be a unique description that clearly defines the organization's distinctiveness and differentiation. Great mission statements are short, memorable, highly focused, and enduring.

**Whether board members are new or have served on the board for years, they may feel somewhat disconnected from the organization as a result of the pandemic.**

*The vision is a vivid description of what the hospital or health system seeks to become in the future.* It considers future challenges, possibilities and choices, and serves as a "high bar" for organizational success. Like the mission, creating a vision with

passion and purpose takes time, innovative thinking, and an ability to think into the future.

*Values are the principles and beliefs that drive organizational behavior at every level throughout the entire organization.* The values are inspirational guideposts, the ethical compass that inspires people to live their professional lives in a certain way, and relate to patients, families, visitors, competitors, and others by

exhibiting certain organizational and personal qualities and characteristics.

**Keeping the mission at the center is key.** The mission, vision, and values should be prominent elements of decision making at all board meetings. Not only should they be displayed with every board meeting agenda, but items should not appear on the board agenda unless they are directly connected to the mission, vision, and values. When considering any decision, boards should always discuss how the decision will contribute to fulfilling the organization’s mission.

### Boardroom Basics: Quality and Patient Safety

Oversight of quality and safety is a board responsibility that extends across the organization. It cannot be delegated.

**The board’s role in quality.** The board sets the quality and safety goals and holds the administration and medical staff accountable to achieve them. The board is also responsible for credentialing and re-credentialing of the medical staff, which includes not only physicians but non-physicians who provide a medical level of care when diagnosing and treating patients (including advance practice nurses, physician assistance, psychologists, and others).

**Understanding the changing quality environment.** Since 1999 when the then shocking Institute of Medicine report entitled *To Err Is Human* was released, there has been growing discussion and focus around

### Six Aims to Improve Quality of Care

The Institute of Medicine (now the National Academy of Medicine) helps boards by defining “six aims” for the health care system. These are six areas hospital trustees and leaders should watch for in their organization as care is discussed.

- **Safe:** Avoiding harm to patients from the care that is intended to help them.
- **Effective:** Providing services based on scientific knowledge to all who could benefit, and refraining from providing services to those not likely to benefit.
- **Patient-centered:** Providing care that is respectful of and responsive to individual patient preferences, needs, and values and ensuring that patient values guide all clinical decisions.
- **Timely:** Reducing waits and sometimes harmful delays for both those who receive and those who give care.
- **Efficient:** Avoiding waste, including waste of equipment, supplies, ideas, and energy.
- **Equitable:** Providing care that does not vary in quality because of personal characteristics such as gender, ethnicity, geographic location, and socioeconomic status.

Board members must have measures that demonstrate how their organization is performing in each of these six areas.

preventable medical errors, increasing patient safety, improving efficiency and effectiveness, building trust and transparency, and creating systems that eliminate the potential for error.

Boards of trustees must take strong, organized action to establish and nurture an organizational accountability and culture that continually seeks to improve quality and patient safety at every turn. **The ultimate goal of excellent care is zero harm.**

### Boardroom Basics: The Board/CEO Partnership

CEOs and their boards must build and sustain vibrant, trust-based relationships in order to successfully navigate the opportunities and

challenges in today’s complex and fast-paced health care world. That trust requires leadership excellence in a number of key areas, including consistent communication, adherence to well-defined roles and responsibilities, and clear CEO performance expectations and accountabilities.

**Building and maintaining trust.** In order to build mutual trust, the board and the CEO must rely on one another for support, consultation and advice, and complement one another’s strengths and responsibilities. Establishing this kind of successful relationship takes work on the part of the board and the CEO, including:

- Communication that is clear, concise, and accurate, with both trustees and the CEO remaining



candid and honest with one another.

- Roles, responsibilities, and accountabilities that are clear and well-defined.
- Board understanding of its policy and strategic “place” in the leadership continuum. Neither board members or the CEO allow egos to suppress the important work at hand.
- A strong sense of synergy results from a mutual understanding of what both the CEO and the board bring to play in tackling the complex challenges that face the organization.

**Clearly defining roles and responsibilities.** While the board is responsible for the high-level strategic focus and direction of the organization, the CEO and his or her administrative team is responsible for the day-to-day operations and details of designing action plans implementing the strategic plan. One is the “what”, the other is the “how”.

When these roles are not clearly defined, board members may begin to wander into the CEO’s domain. The results of that meandering can be problematic. To avoid board

### Define Board and CEO Responsibilities in a Matrix

A good idea for delineating board and management responsibilities is to develop a matrix of responsibilities in a broad range of areas, such as hiring, budgeting, personnel policies, compliance, advocacy, community relations, quality, credentialing, and more. The group or individual’s specific responsibility may then be clearly defined, and gray areas can be avoided. The matrix should briefly define whether the individual or group develops, directs, reviews, provides input, and/or approves work in each area.

micromanagement and maintain a productive board/CEO relationship, roles and responsibilities should be clearly expressed in writing.

**Executive sessions.** One of the most productive places for candid and forthright board/CEO discussion to take place is in an executive session.

Executive sessions are settings that allow the board to handle confidential matters behind closed doors without staff or “outsiders” present. They typically take place following adjournment of the regular board meeting, but they may also take place before or during the meeting.

Holding regular executive sessions can go a long way toward building a strong sense of connection and communication between the board and the CEO. The executive session enables both to engage in the kind of dialogue that is oftentimes difficult during a regular board meeting when

should never be used as a method for operating “under the radar” of the regular board meeting.

**CEO compensation and evaluation.** Hiring, motivating, and retaining the hospital CEO is a critical board responsibility. Maintaining clear performance expectations and ensuring a regular compensation and performance review of the CEO encourages frequent and open communication between the board and CEO, and helps ensure that the CEO’s performance drives achievement of the hospital’s goals.

Throughout the process, it’s critical that board members maintain an organization-wide focus, ensuring that the CEO’s compensation is aligned with the organization’s goals, and that no conflict of interest exists between board members and CEO compensation decisions.

### Boardroom Basics: Strategic Planning

A highly effective strategic plan is not simply a set of strategies, plans, budgets, and responsibilities. Instead, it’s an ever-evolving process of examination of the market, forces for change, and other current information that helps the board to understand

staff members and, in the case of public hospitals, the press and members of the community, may be in attendance. Executive sessions should be held with the CEO’s support and approval, and



changing dynamics, and continually reshape or fine-tune the hospital's strategic direction.

**Understanding the process.** While the strategic planning process can seem overwhelming and highly detailed, the following guidelines can help board members as they navigate the process:

1. Board members don't need to know everything there is to know in order to make intelligent decisions and wise choices about the future. Trustees need to have assurance that senior leadership is asking the right questions and utilizing the appropriate tools to ensure an evidence-based, outcomes-focused process.
2. Because of the rapid pace of change in health care, what organizations know today is very different from what they're likely to know tomorrow. That means that strategic planning processes, structures, and systems need to be nimble and flexible.
3. Trustees will never know everything they'd like to know to be totally confident in every decision they make. What they need to have is the assurance that the board's knowledge, critical thinking, and leadership is sufficient to guide decisions, and to make corrections when necessary.

**Handing off the plan to management.** Once the high-level strategic thinking has been accomplished and the board is satisfied with the broad strategic direction of the hospital, the management team can go to work. It is management's role, not the board's, to develop action steps, communicate the

### Typical Steps in the Strategic Planning Process

1. **Ensure a Strong Foundation: Review the Mission, Vision and Values.** Is the mission as presently stated still a meaningful and memorable description of the core purpose of the hospital? Are the values or principles underlying the mission still relevant? Is the vision still a challenging but realistic stretch?
2. **Understand the Environment.** Conduct a thorough scan of the environment, both inside the organization, in the community and nationally. Goals and strategies should respond to both external trends and internal issues and opportunities.
3. **Understand Challenges and Opportunities.** Utilize the findings from steps one and two to define the primary challenges, barriers, and opportunities confronting the organization, and determine the factors most critical in future success.
4. **Set the Direction.** Define changes to existing strategies, or develop new strategies that respond to environmental change and that capitalize on the most significant opportunities for the hospital as it moves forward.
5. **What's Most Critical?** Prioritize strategies and objectives to ensure their match with the mission and vision, using rating criteria such as urgency to achieve, feasibility of success, and overall impact on community health and competitive position.

plan throughout the organization, and ensure that everything is in place for successful strategic implementation.

**Tracking performance.** One of the primary challenges for hospital boards is to know whether the strategies and objectives adopted and implemented are achieving the desired outcomes. Being able to engage in a continuous analysis and dialogue about strategic progress and performance requires a set of key performance indicators that tell the board where current strategic gaps exist, and where potential strategic gaps may be on the horizon.

With the input of the CEO and management team, the board should track performance and progress using a set of metrics, a periodic review process, and an incentive system to reward management for meeting organizational objectives.

### Boardroom Basics: Community Needs and Partnerships

A comprehensive community needs assessment provides the hospital or health system with first-hand information about the health care needs of the community it serves. With this "snapshot" of the community's health, the hospital can identify the most pressing health care needs of the community, populations of individuals in need, gaps in care and services, barriers and challenges to receiving services, and other organizations that



may already be working to meet specific needs. This information provides the foundation needed to build strategic and operational plans that will advance the hospital’s mission of service to the community.

Community needs assessments are an opportunity to strengthen community relationships, and are also mandated by the IRS for not-for-profit hospitals.

In addition to conducting regular community needs assessments, hospital and health system boards should continually seek to develop and engage in partnerships with a wide range of other agencies and hospitals in their communities. Community partnerships are an opportunity to more effectively address the greatest community needs, including social determinants of health such as housing, employment, income, food, education, access to transportation, family support, and more. These factors are outside the control of a single organization, but they impact an individual’s access to care, patient care outcomes, and overall quality of life in a community.

**Boardroom Basics: Medical Staff Collaboration**

The hospital/medical staff relationship should be a trusting partnership, where both the medical staff and hospital work closely together to provide quality care for patients. But hospitals and medical staffs often have differing perspectives and unique cultures, which can lead to a disconnect between the two.

**Provider burnout.** Before the COVID-19 pandemic, reports of provider

**Review of Governance Basics**

**Update**

- ✓ Board manual
- ✓ In-person trustee tours
- ✓ Regular board education

**Review**

- ✓ Fiduciary responsibility
- ✓ Mission, vision, values
- ✓ Quality & patient safety
- ✓ Board/CEO partnership
- ✓ Strategic planning
- ✓ Community partnerships
- ✓ Medical staff collaboration
- ✓ Financial performance

burnout and exhaustion were already high. After March 2020, the numbers increased even more. The impact of provider burnout is far-reaching, affecting not only the health of individual caregivers but also quality of care and the work environment for the entire care team. According to the Journal of American Medical Association (JAMA), physician burnout is associated with:

- **Increased health risk** for cardiovascular disease and shorter life expectancy, problematic alcohol use, broken relationships, depression, and suicide.
- **A two-fold increase in unsafe care**, unprofessional behaviors, and low patient satisfaction.
- **All burnout measures are associated with increased patient safety incidents**, including emotional exhaustion, depersonalization and personal

accomplishment. In addition, symptoms of depression or emotional distress in physicians were associated with a two-fold increase in patient safety incidents.

The American Hospital Association’s Physician Alliance “Well-Being Playbook: A Guide for Hospital and Health System Leaders” provides steps to address provider burnout at [www.aha.org/physicians](http://www.aha.org/physicians).

**Building alignment.** Hospital and health system boards must commit to building trust and alignment with physicians and other caregivers. Critical components include regular communication, giving caregivers a voice on the board and where strategic issues are discussed, engaging in activities that build relationships between leaders, physicians and board members, and offering physician training in leadership and team skills.



## Boardroom Basics: Financial Performance

One of the most critical functions of the governing board is protecting the organization's financial status. This typically includes:

- Establishing financial goals in a variety of key areas, including growth, debt capacity, return on equity, and other areas that define financial success.
- Approving the annual operating and capital budgets, receiving and approving a variety of budget reports throughout the year (primarily through a Finance Committee), and overseeing the organization's investment policies and goals.
- Assessing the impact of pricing strategies and discount policies, and determining the policy on uncompensated care and provision of needed community services.
- When appropriate, actively participating in and encouraging philanthropic efforts.

In order to be successful financial stewards, boards must understand the shift toward value-based care and changes in incentives and patient behaviors impacting reimbursement. In addition, boards are responsible for ensuring that the hospital or health system consistently complies with all applicable laws and regulations. With the federal government's emphasis on detecting and punishing health care fraud, trustees must ensure that an ethical business climate always exists in the hospital, and in particular, that financial procedures and processes are conducted in an ethical manner.

## Questions All Board Members Should Be Able to Answer

1. What is our organization's mission and vision, and how does it drive discussions and decision-making?
2. How has the COVID-19 pandemic impacted our organization, and how do we expect health care to change as a result?
3. What critical trends and shifts are taking place in the health care environment that impact our organization and the community we serve?
4. What major changes are occurring in the local, regional, and national legislative and regulatory environment, and how have they or will they impact our organization?
5. When did we last conduct a community health needs assessment? How are we addressing the needs identified? If it was prior to the COVID-19 pandemic, how does that change our approach?
6. Who are our competitors? What potential partnership or affiliation might they seek, if any? What is their strategic significance to our organization?
7. How well-aligned and integrated is our hospital and its medical staff? Are physicians employed or independent? Are physicians involved in organizational decision-making, and do they support our organization's mission and vision?
8. What percentage of our organization's payments come from Medicare, Medicaid, "traditional insurance," or self-pay/uninsured patients? How are reimbursement levels impacting our organization's financial status? How has reimbursement changed as a result of the pandemic?
9. What percentage of revenues comes from inpatient acute care, outpatient surgery, outpatient primary care, hospice, nursing home care, etc.? How are these changing?
10. How is our organization responding to changing payment models, including bundled payments and value-based purchasing? How are we moving toward a more integrated care delivery environment?
11. What is our organization's financial status, including operational margins and margins from our lines of business?
12. What is our organization's quality performance and how is it measured? What key quality and patient safety initiatives are currently underway?
13. What is the state of our organization's current information technology system, and what are the long-term goals and expectations? Does information technology better integrate our various service lines, entities, and medical staff?
14. What does our board need to know and do to ensure our organization is addressing new and emerging cybersecurity concerns?
15. What are the three to five most critical issues confronting our board in the next year? What are the key initiatives and goals of our organization's strategic plan? Are these aligned?