2019 Hospital Board Governance Trends

Texas Healthcare Trustees

Texas Healthcare Trustees and Arkansas Hospital Association have conducted a Governance Trends Survey of their memberships. The purpose of the survey is to help identify current and anticipated changes in health care governance and prompt discussions on how member boards can effectively respond to these changes. Next is a summary of survey results, including identified areas or topics for further trustee consideration.

The summary is followed by a discussion of the impact health care transformation is having on hospital governance structures and responsibilities. In addition, several Texas and Arkansas hospital and health system executives were interviewed to further explore some of the themes identified in the survey results. Their perspectives on governance trends can be found beginning on Page 6 of this report.

Summary of Survey Results

Who Responded:

- 78 (48 from Texas and 30 from Arkansas) hospital and health system leaders responded to the Governance Trends Survey.
- Most responses from each state came from board members.
- Respondents from both states are generally older with little or no racial or ethnic diversity.
- About one-third of Arkansas respondents and slightly less than half of Texas respondents are female.

Hospital Types Represented:

- Based on participation in the survey, responses presented herein are most representative of rural, not-for-profit and public/government hospitals.
- About a quarter of respondents from each state represent critical access hospitals, while the rest represent a wide range of hospital sizes. (See Figure 7)

How Respondents' Boards are Structured:

- Almost two-thirds of Texas boards represented in the survey are unaffiliated, stand-alone/independent hospital boards and about one-quarter are from system or parent boards. Three-quarters of them meet monthly.
- Most Arkansas boards represented in the survey are unaffiliated, stand-alone/independent hospital boards. Over two-thirds of them meet monthly.

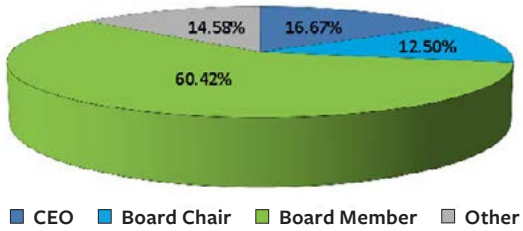
Who Serves on the Board: Composition and Succession

In both states, where applicable, system board member selection is indicated to be made by a system governance committee.

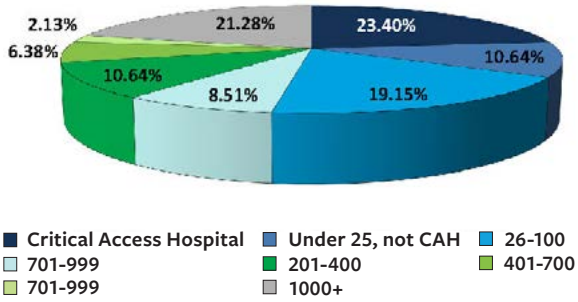
Texas:

- Nearly half of the Texas boards represented in the survey recruit or appoint new board members while a third are elected by popular vote. (See Figure 9)
- A quarter of represented boards use a diversity-based model, while 40 percent use skills-based matrices and 44 percent are elected. (See Figure 10)
- About one-third indicate they must recruit aggressively or have difficulty recruiting new board members.
- About two-thirds have two to three-year terms while about

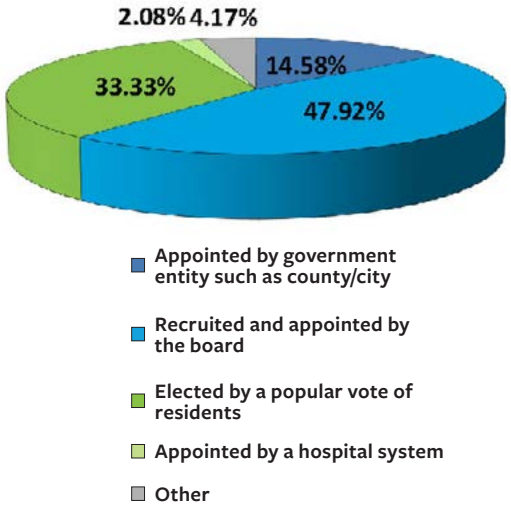
Who Responded From Texas
Figure 1—By Title/Role



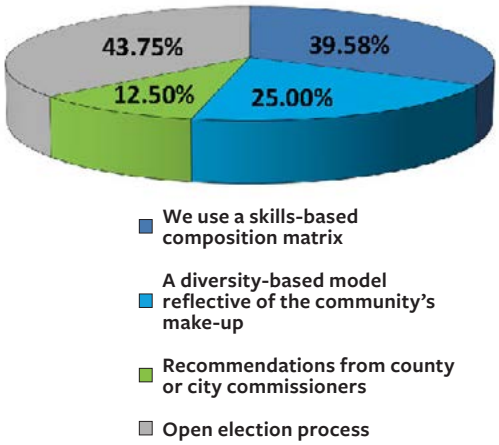
Hospital Types Represented From Texas
Figure 7



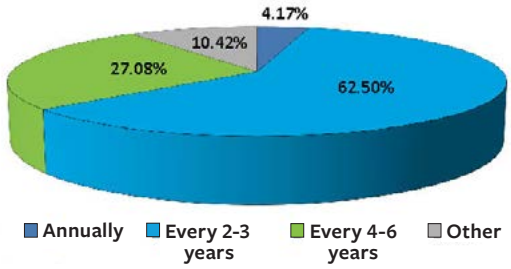
Board Composition
Figure 9



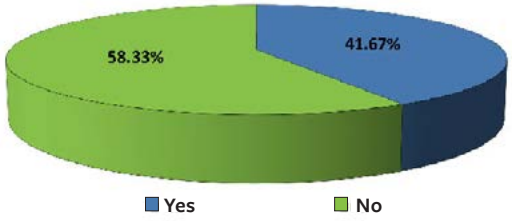
Recruitment Process
Figure 10



Board Terms
Figure 12



Term Limits
Figure 13



a quarter have four to six-year terms. (See Figure 12)
- More than half do not have term limits.

Arkansas:

- Slightly more than three-quarters of Arkansas boards represented in the survey recruit or appoint new board members themselves.
- Just over half of the represented boards use a diversity-based model, while another third use skills-based matrices.
- Over 40 percent indicate they must recruit aggressively or have difficulty recruiting new board members.
- About half have two to three-year terms and another third have four to six-year terms.
- About two-thirds do not have term limits.

Governance Structures and Board Members Involvement in Committees:

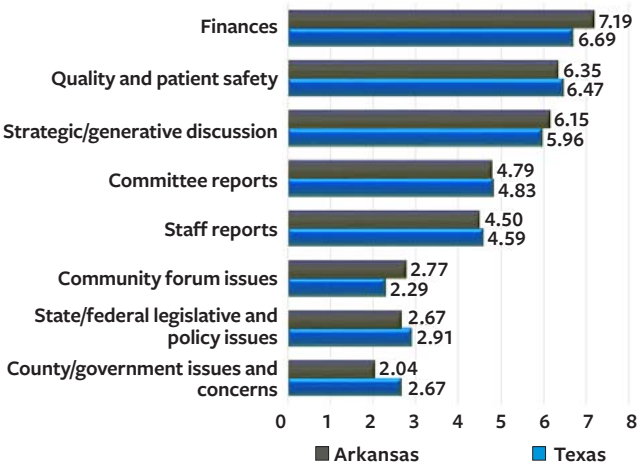
- In both states, the committees in which board members are most likely to be engaged are Finance, Governance/ Nominating and Strategic Planning.
- More than three-quarters of boards in Texas and just over half the boards in Arkansas involve board members in their Quality and Patient Safety committees.
- Physicians and Hospital CEOs are more often included on board committees than other representatives including patients/family members, non-physician staff, management company/corporate staff, system board members or unit hospital board members.
- Just under half the boards participating from either state include non-physician staff.

Governance Responsibilities and Board Focus:

- Representatives from both states indicated they spend the most time on finances, closely followed by quality and patient safety and then strategic/generative discussions. (See Figure 19)
- More than 80 percent of respondents from both states indicate that budget authority, financial oversight, CEO selection and performance evaluations, quality and patient safety oversight and strategic planning and goal setting are board responsibilities.
- Community fundraising is least likely to be a board responsibility.

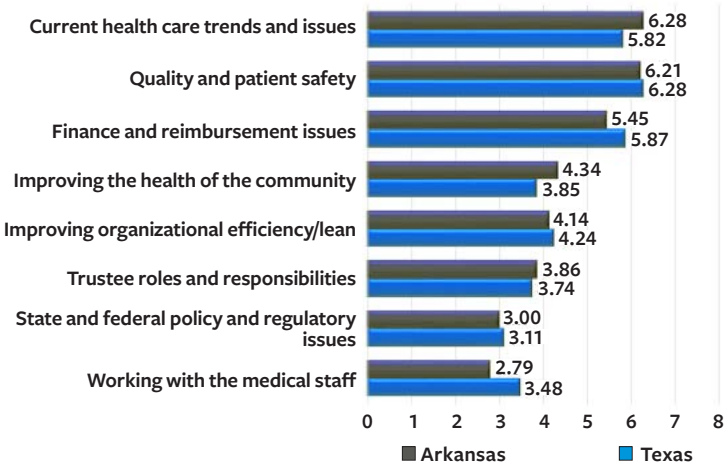
Governance Responsibilities and Board Focus

Figure 19: *Where Boards in Each State Focus Most of Their Time*



Governance Education

Figure 20: *Areas of Education Most Needed by Boards in Both States*



Governance Education:

- Three-quarters of respondents from Texas and about two-thirds of those from Arkansas indicated their boards use self-assessments or evaluations.
- Boards from both states access multiple sources and channels for board education.
- Respondents from both states indicated the top three areas of education most needed by boards are current health care trends and issues, quality and patient safety, and finance and reimbursement. (See Figure 20)
- Notably, 87 percent of respondents from Texas indicated a willingness to participate in a governance competency program, as did about 60 percent of Arkansas respondents.

Governance Trends:

- In general, most respondents from both states believe the emergence of advisory boards is not applicable to their organization.
- Where applicable, respondents indicate the first emergence was more than seven years ago, with a slight uptick in the past two years.
- Most respondents from both states also indicated that:
- There has been no change in the number of community members holding seats on either stand-alone hospital unit boards or system boards, or the issue is not applicable to them; and
- They do not anticipate any changes in their board structures.

Foreseeable Trends in Use of Advisory Boards

Arkansas:

- Sixteen of 22 respondents do not foresee any change in the use of advisory boards.
- Three indicated they believe there will a shift to advisory boards in place of local boards.

Texas:

- Twenty-five of the 35 respondents do not foresee any change in the use of advisory boards.
- Three indicated they believe there will a shift to advisory boards in place of local boards.
- Six indicated they use or expect to use advisory boards for specific purposes such as soliciting community health. The intent is interpreted as additive to local board knowledge and awareness rather than replacing local boards with advisory boards.

Final Thoughts on Board Education and Training Needs

Comments from survey participants are summarized below:

Texas:

- Hot Topics for Boards:
  - Fiduciary duties and responsibilities.

- Finance and government reimbursement.
- Strategic planning.
- Updates on state and federal health care laws, regulations and trends.
- Board member role as ambassadors (professional handling of complaints and gossip).
- Getting board education to small rural communities.
- Implementing a governance competency program in small rural community environment.
- Benchmarking with comparable hospitals.
- Ability to increase the number of graduate medical education (GME) programs.

Arkansas:

- Hot Topics for Boards:
  - Updates on state and federal health care laws, regulations and trends.
  - Governance issues for boards of hospice organizations.
  - Funding of critical access hospitals (CAH).
  - Physician and nurse recruitment.
  - Potential ACO affiliation.

DISCUSSION: Trends in Health Care Governance

For nearly a decade, the U.S. health care industry has been undergoing a transformation driven by the passage of federal legislation, a renewed focus on care quality and patient safety, new entrants to the market, advances in technology and more. In response to the changes many hospitals are merging, affiliating or developing new partnerships to better position themselves within the newly formed landscape. Along with changes to organizational structure, the responsibilities and structure of hospital boards are also shifting. More is expected of boards and accountability has increased. As hospitals have expanded into systems and networks, the resulting organizations must clearly define how the various boards of partnering entities will operate. As a result, governance structures and responsibilities are being redefined to eliminate redundancy and promote efficiency and responsiveness.

While survey results don't indicate that respondents are experiencing or anticipating changes in governance structure or responsibilities, it is vital that trustees be aware of the governance changes that are happening nationally. Trustees cannot afford to be surprised when change confronts them. They need to anticipate the potential for change, consider how they might respond, discuss potential consequences and chart a course for ensuring the organization's viability.

What's Behind Governance Change

The shift from a volume-driven payment system to a value-driven one based on quality, outcomes and cost-management has prompted greater coordination and integration of care between providers. To expand their range of services and improve their ability to coordinate care, many hospitals have acquired physician practices, hospice organizations and other providers. Larger organizations have merged or acquired other organizations to increase their size and achieve the economies of scale that will allow them to benefit from big data, invest in information technology infrastructure and assume risk under new reimbursement models. Smaller independent hospitals have partnered with larger hospitals or health systems to avoid closure and/or expand their ability to offer essential services to their communities. Many partnerships between organizations began at local and regional levels but have now advanced in size to become transactions that result in multistate organizations. [1]

In 2018, 3,231 community hospitals in the United States were in a system, an increase from 3,198 in 2017. The number of community hospitals in a network also increased, from 1,677 in 2017 to 1,689 in 2018. (*The American Hospital Association defines a system as a multihospital or diversified single hospital system. A network is defined as a group of hospitals, physicians, other providers, insurers and/or community agencies working together to coordinate services.) [2]

According to Kaufman Hall, "Texas is the most active state thus far in 2018, with five announced transactions, including two announced transactions in the third quarter. In 2017, Texas ranked third overall in terms of merger and acquisition activity with eight deals." [3] A pending merger between LifePoint Health and RCCH health care Partners is among the largest deals, involving 84 non-urban hospitals across 30 states. The merger includes seven hospitals in Texas. The acquisition of Iasis health care in 2017 made Steward Health one of the largest operators of private hospitals in the U.S. Its 36 hospitals include six hospitals in Texas and one in Arkansas. [4] More recently announced, is the planned merger between Texas' Memorial Hermann Health System and Baylor Scott and White Health. [3]

What Are the Governance Implications?

As the number and complexity of systems have grown, the challenge of effectively governing multiple subsidiaries has grown with them. Agendas become unwieldy, issues and decisions are more complex, and oversight and resources can be stretched thin. Further, the interests or decisions of subsidiary boards may not align with the direction or vision of the system. [7] While not all hospitals have been impacted by this shift, CEOs and board chairs participating in a governance survey in New York state agreed that hospital/system alignment will continue. Seventy percent of the CEOs and 64 percent of the board chairs believe that the role of stand-alone boards will shift from decision-making to advisory as systems seek to overcome challenges and improve governance effectiveness. [8]

In order to fulfill the board's fiduciary duty of care, boards need to periodically examine whether their current governance structure and processes allow them to carry out their responsibilities efficiently and effectively. At the core of this concern is the impact rapid change and increasing complexity can have on governance. Boards need to ask themselves whether they can continue to make well-informed decisions, maintain adequate oversight and raise board members' engagement to keep pace with transformation. There is a legal expectation that boards review their governance size and structure to ensure they adequately support the board's ability to carry out its work. This expectation holds true whether the hospital remains independent, but especially if the organization expands its size, network or affiliations. [5] Despite this imperative, the American Hospital Association's 2014 National Health Care Governance Survey Report found a low rate of board engagement in examining emerging governance models and considering how they might apply to their organization. [6]

In his white paper "Healthcare Governance Amidst Systemic Industry Change: What the Law Expects," Michael W. Peregrine identifies four areas in which transformation might affect the board's governance structures and practices, advising that boards should regularly examine these areas and assess whether the board needs to make changes as a result. [5]

- Board calendars and agendas, which are likely to be impacted by an increasing number of transformation-based issues.
- Levels of authority and control power retained by system parent boards over subsidiaries and joint venture investments.
- Management/board communication and reporting relationships, which can be compromised by the intensity and complexity of health care transformation.
- Committee structures and charters, whose adequacy may be strained by the challenges of transformation.

The Advisory Board's Role as a Strategic Asset

The issue of decision-making authority at the local level is one that trustees of stand-alone hospitals commonly wrestle with when contemplating a merger, acquisition or partnership. However, most boards are willing to give up some autonomy to ensure their organization's survival. [6] The challenge in shifting a board's role to an advisory one, is making sure that local boards are recognized and valued as strategic assets. Members of local boards are most often recognized leaders of the community. They are typically the individuals most familiar with the hospital, community and its health care needs.

Governance Perspectives from Three Texas and Arkansas Executives

Three Texas and Arkansas hospital executives were interviewed in conjunction with the survey to provide their valuable "boots on the ground" perspective on a couple of key issues identified in the survey results. Jeanne Bamburg, FACHE, CEO, Bayshore Medical Center (HCA), Ron Petersen, President and CEO, Baxter Regional Medical Center, and Jayne Pope, RN, FACHE, CEO, Hill Country Memorial Hospital offered the following thoughts on current governance trends.

JEANNA BAMBURG, CEO, BAYSHORE MEDICAL CENTER

JAYNE POPE, CEO HILL COUNTRY MEMORIAL HOSPITAL

The Greatest Governance Challenges Confronting Boards

When asked what they consider to be the biggest governance challenges boards will face in the next three years, Bamburg, Petersen and Pope all identified adapting to a rapidly changing health care environment at the top of their lists. As Pope observed, board members have "signed up" for a hospital board, but health care in general is becoming less about inpatient care and more about outpatient care and the delivery of care outside the four walls of the hospital. Petersen noted that board members will need to shift their focus, as metrics and strategies that used

to be important are no longer as relevant or effective in an environment in which everyone is focused on keeping patients out of the hospital. He also called attention to the challenges of understanding and advancing the role of technology in health care.

As the environment changes and hospitals strive to keep pace, board members can fill a critical role and serve as key assets to their CEOs. Bamburg observed that even exceptionally skilled CEOs are challenged to find time to step back from day-to-day operations to think creatively. Together with the CEO, she noted that board members can contribute fresh perspectives that help leadership think differently about the future. But, they can't help unless the CEO shows them their value and makes sure they understand the issues.

The Impacts of health care Transformation on the Board's Work

When asked about the impact of health care transformation on the board and its work, Petersen pointed to the growing complexity of governance and its processes, including the increasing amount of preparation and meeting time required of board members. To maximize the board's efficiency and effectiveness, Pope cited her board's use of a consent agenda and trust in the work of its committees for allowing it to focus on the most important issues. Attention is also paid to structuring the board's meeting agenda so there is a healthy balance between a focus on the financials and quality outcomes and patient experience.

Preparing for Any Eventuality

Like many independent hospitals, Petersen and the board of Baxter Regional Medical Center are fully intent on remaining independent. However, they are also well aware that today's environment is characterized by financial pressures and hospital and health system consolidation. Petersen observed that remaining independent will mean recognizing the point where the hospital may be poised to overstep the line between serving as a community asset and becoming a community drain. Working with a local accounting firm, the board has developed a financial strength index that it continually monitors. The index includes metrics that compare Baxter's current and past performance as well as comparing its performance with the marketplace. Financial "trigger points" are included to prompt board discussions for continued long-term medical center viability and service to the community.

Recruiting and Engaging Board Members

Many of the members participating in the survey indicated they must recruit aggressively or have difficulty recruiting new board members. This is particularly true for rural communities, which offer smaller pools of candidates. Many of the associations' members use a skills matrix to identify the professional knowledge and experience the board needs to recruit for. Pope's board at Hill Country Memorial Hospital also conducts a self-evaluation in which each board member assesses or rates her or his personal strength in fulfilling identified skills; and everyone is screened for their alignment with the hospital's values. A diversity matrix (age, gender, race/ethnicity) is then layered over the needed skills. Petersen observed that it is easier to attract older community members with the desire and time to give back, than it is to draw in younger, successful and experienced individuals. Adding to recruitment challenges are the homogeneity of many small communities as well as concern for conflicts of interest with businesses in small communities.

Bamburg puts action behind her belief that it's the CEO's responsibility to use board members' potential, get them involved and keep them engaged. At the beginning of the year, she gives her board members a checklist of multiple ways they can be involved. Examples include attending the morning huddle, senior executive rounds, suiting up and observing the operating room, attending a department meeting, and/or participating in employee recognitions. This past December three of her board members rounded with her on Christmas morning.

Pope's board at Hill Country Memorial Hospital also conducts a self-evaluation in which each board member assesses or rates her or his personal strength in fulfilling identified skills; and everyone is screened for their alignment with the hospital's values. A diversity matrix (age, gender, race/ethnicity) is then layered over the needed skills.

While her board has examined and identified its core competencies for today, Pope questions what competencies they will need in the future, and who the board should be recruiting now to be ready to meet those needs. Like many boards, her trustees have been there for the community. They will need to think differently to move their organizations from legacy providers to nimble entrepreneurial organizations ready to meet the demands of the future.

QUESTIONS FOR BOARD DISCUSSIONS

1. How are changes in the health care environment impacting the board's work and its capacity to fulfill its duty of care?
2. Has the board examined its governance structure and processes within the past two to three years? What steps should the board take to maximize its efficiency and strategic focus?
3. Are board members well-informed and engaged in the board's work? What steps can or should the CEO and/or board chair take to strengthen board member understanding and engagement?
4. What skills, experience or attributes should the board be recruiting for to be prepared for a different future?
5. Understanding a commitment to remain independent, has the board identified indicators designed to ensure the hospital's long-term independence and trigger points for revisiting that decision?
6. Has the board discussed the trends in emerging governance structures and responsibilities, and how they might apply to their governance structure?

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[1] Monica Noether, Ph.D. and Sean May, Ph.D. Hospital Merger Benefits: Views from Hospital Leaders and Econometric Analysis. CRA Charles River Associates. January 2017. https://www.crai.com/sites/default/files/publications/Hospital-Merger-Full-Report-_FINAL-1.pdf.

[2] American Hospital Association Resource Center. Fast Facts on U.S. Hospitals. February 2018. www.aha.org/system/files/2018-02/2018-aha-hospital-fast-facts.pdf.

[3] Kaufman Hall. Third Quarter Hospital Merger and Acquisition Activity Includes a Modest Slowdown and Continued Large-Scale Transactions. News provided by Kaufman Hall. Oct. 15, 2018. https://www.kaufmanhall.com/news/third-quarter-hospital-merger-and-acquisition-activity-includes-modest-slowdown-and-continued.

[4] Steward Health Completes Acquisition of Iasis Healthcare: With 36 Hospitals Nationally, Steward Becomes the Largest Private Hospital Operator in the U.S. September 2017. www.steward.org/1/article/steward-health-completes-acquisition-iasis-healthcare.

[5] Michael W. Peregrine. "Healthcare Governance Amidst Systemic Industry Change: What the Law Expects." The Governance Institute. Winter 2014.

[6] American Hospital Association Center for Healthcare Governance. 2014 National Health Care Governance Survey Report. 2014.

[7] Sean Patrick Murphy and Kathryn C. Peisert. Board Organization and Structure. The Governance Institute. Fall 2015

[8] Healthcare Trustees of New York State (HTNYS). Transformational Governance: A Look into New York State's Healthcare Governance. 2017. www.htnys.org.

There is a lot to keep up with in health care. Texas Healthcare Trustees is here to help our members, trustees of hospitals and health care systems throughout Texas, with resources that will help to stay up-to-date on important information that can impact how they lead their organization. To learn more about this series and to view other tools and resources available, visit **www.tht.org**.

Texas Healthcare Trustees is a statewide association whose members are Texas hospitals and health systems and the 3,000 board members who govern those organizations. THT believes a knowledgeable board member means enhanced leadership. As an organization we work to provide top-tier education, resources and leadership development opportunities to trustees.

THT is the oldest trustee organization in the country, founded in 1961, and is affiliated with the Texas Hospital Association.

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