

BoardBrief

Prepared for Colorado Hospital Association Trustees

Governance “Never Events”:

10 Leadership Failures That Should Never Occur in Hospital Boardrooms

The National Quality Forum has identified 29 “never events”, or errors in medical care that are clearly identifiable, preventable, and serious in their consequences for patients, and that indicate a real problem in the safety and credibility of a health care facility. Just as preventing clinical “never events” from occurring is a vital quality and patient safety imperative, preventing governance failures is also critically important.

Hospital trustees undertake some of the most vital work required for hospitals to be successful in achieving their mission and vision - examining external trends and issues and their impacts; exploring the advantages and disadvantages of various strategic scenarios; delving into community needs and determining options to meet them; balancing board, administrative and medical staff relationships; discussing progress in quality and patient safety; and accomplishing all in a rapid change environment where today’s reality may be different tomorrow.

To be confident and successful in their governance, boards should have policies, procedures, and a clear structure and expectations to ensure they do not commit “governance never events,” or basic failures of accountable governance leadership.

No. 1

Failure to make quality and patient safety the number one item on the board’s agenda

The board of trustees is responsible for ensuring the quality and patient safety of the organization and must establish and nurture an organizational culture that continually seeks to improve quality and patient safety at every turn.

While no board or individual trustee sets out to govern with low performance, boards can be “unsafe” or perform “governance malpractice” simply through a lack of knowledge or understanding about key issues, not talking about quality

and patient safety measures and their implications, a lack of engaged involvement, or focusing in the wrong areas.

Boards are responsible for ensuring that high-quality care is consistently and effectively delivered to patients, and providing leadership that results in effective systems, measurement and improvement. In fulfilling this responsibility boards should take action to ensure that health care quality is of paramount priority in every decision and action made on behalf of the hospital.

The board sets the tone or “culture” for the hospital, including setting patient safety guidelines and priorities and dedicating the resources necessary to ensure appropriate, effective and safe care. Boards should know the answers to questions like these:

- How good is our quality? How safe is our hospital? How do we know?
- What is our “culture” of quality and safety? Does everyone in the hospital family understand and embrace it?
- What should we be measuring, and how can we improve?
- What does the public expect from us?
- How ready are we to publicly disclose our quality and patient safety performance?

It is the board’s responsibility to ensure that the hospital is taking clear, appropriate measures to provide the safest health care in the most efficient and effective manner. Trustees must

be well aware of and proactive in addressing patient safety and seek continuing education about current trends and implications in this area. They should regularly review key quality indicators and take necessary corrective action when appropriate.

The Institute for Healthcare Improvement has identified 15 needed governance behaviors to propel quality improvement. Among those 15 behaviors are:

- They set a clear direction for the organization and regularly monitor performance;
- They take ownership of quality problems and ensure a quality agenda item at every board meeting;
- They invest time in board meetings to understand the gap between current performance and best in class;
- They establish accountability for quality of care results at the CEO level, with a meaningful portion of compensation linked to it;
- They establish sound oversight processes, relying appropriately on quality measurement reports and dashboards;
- They require a commitment to safety in the job description of every employee, and require orientation to quality improvement teams, methods and skills for all new employees and physicians;
- They set goals for the education of board members about quality and safety, and they ensure compliance with these goals;
- They hold “crucial conversations” about system failures that resulted in patient harm; and
- They allocate adequate resources to ongoing improvement projects and invest in building quality improvement capacity across the organization.
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No. 2

Failure to consistently carry out the fiduciary responsibility

As the ultimate authority for the hospital, the board sets the overall agenda and charts the course for the future. The board is responsible for operational effectiveness, strategic direction, establishing and nurturing the corporate culture, ensuring CEO success, and maintaining a careful balance between meeting community needs and ensuring financial viability. To accomplish this, each board member must provide strong, insightful and balanced leadership.

The board has a fiduciary duty of trust to the organization’s stakeholders (patients, the community, employees, medical staff, payers, governments, and others) to ensure that the hospital is healthy and that it serves the interests of the stakeholders. The board is the driver and keeper of the organization’s mission, values, vision, goals and strategies.

As the board is broadly responsible for the success of the hospital, it fulfills a fiduciary responsibility defined as a duty of organizational loyalty; a duty of care to the application of sound business judgment; and a duty of obedience and abiding bylaws, regulations and standards of hospital operations.

Duty of loyalty. The duty of loyalty bars trustees from the use of their board position and self-serving

manner. It is essentially a requirement for trustees to place the interests of the organization above all else when acting in their fiduciary capacity. Undivided loyalty means that board members are always: 1) objective; 2) unbiased in their thinking and approaches to issues and decisions; 3) free from external control, ulterior motives and “constituency thinking;” and 4) have no conflict of interest when discussing issues and making decisions.

Duty of care. Trustees are required to use the same level of judgment in discharging the business of the hospital that they would use in their own personal business activities. This is accomplished by: 1) obtaining necessary and adequate

information before making any decisions; 2) acting in good faith; and 3) making decisions that are always in the best interest of the hospital.

“Due diligence” is a critical component of the board’s duty of care. The IRS explains that trustees of a not-for-profit organization must exercise due diligence consistent with the duty of care that requires trustees to act in good faith, with the care an “ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the trustee reasonably believes to be in the organization’s best interests.”

Duty of obedience. The duty of obedience requires board members to follow all state and national laws, organizational bylaws, rules and regulations when representing the interests of the hospital. The bottom line is that board members must act in a manner that protects corporate operations and community trust.

No. 3

Failure to engage in robust, deliberative dialogue

How well the board of trustees consistently engages in lively dialogue around critical issues determines its ability to successfully and decisively deal with major challenges. Good board dialogue is characterized by an avoidance of “groupthink,” and a willingness to challenge traditional assumptions and beliefs. Lively give-and-take supersedes mundane reporting. A willingness to openly air the conflicts that would otherwise remain below the surface makes way for real consensus.

Board and committee meeting time is limited, and every minute should count. Board members must ensure their governance conversations are always vibrant, vital and focused on purpose and outcomes. Dialogue should be the board’s “social operating mechanism.” Through critical conversations, decisions are made by grappling and grasping with concepts, ideas and practical solutions, leading to better informed and more rational conclusions.

Miscommunication and misjudgment often are a result of inadequate listening, not from a lack of words. To ensure strong, effective governance and communication, board members should listen first and talk later, acquire and absorb new ideas, listen attentively without rushing to judgment, and absorb information before offering a definitive response.

Without constructive challenges to conventional wisdom and thought, the best solutions may never surface. Boards should regularly confront issues by challenging assumptions and exploring alternatives to traditional thinking. Doing so may cause short-term tension and disagreements, but this tension should be welcomed, and will result in thorough, organized deliberative dialogue.

No. 4

Failure to meaningfully discuss and explore strategic opportunities

Mapping a course for the hospital’s future is one of the most important governance responsibilities. There’s a big difference between mapping the course, or being in navigator, and “driving the bus.” To successfully lead their organizations into the future, trustees need to understand and successfully carry out their unique role in the strategic development and implementation process.

A highly effective strategic plan is not a document; it’s not simply a set of strategies, plans, budgets and responsibilities. Instead, it’s an ever-evolving examination of the market, forces for change, and other information that helps the board to understand changing dynamics, and continually reshape or fine-tune the hospital’s strategic direction.

The board should govern and lead the strategic plan, not create or manage it. To fulfill this responsibility the board must assume a strong and focused leadership role; it cannot afford to stand back reactively waiting to see what developments will unfold in the marketplace.

No. 5

Failure to avoid conflicts of interest

The board has a fiduciary duty to ensure that all governance deliberations and decisions are carried out without conflict of interest, always with the best interests of the hospital at the forefront. Hospital leaders who create and adhere to a strong conflict of interest policy will be successful in ensuring open and honest deliberation.

A conflict of interest exists when a board member, senior leader or management employee as a personal or business interest that may be in conflict with the interests of the hospital. A “red flag” should be raised any time the personal or professional concerns of a board member may affect his or her

ability to put the welfare of the organization before personal benefit.

Conflicts of interest can be complicated, and are almost always unintentional. In some cases no conflict actually exists, but the perception of a conflict of interest can be just as detrimental. Having multiple systems in place to safeguard against conflict of interest ensures hospitals will minimize personal dilemmas covering a variety of issues, such as financial gain or business or family benefits. These safeguarding procedures will help the hospital and its board to be prepared when real or perceived conflicts do occur.

Boards should establish a process for preventing and addressing the inevitable conflicts that arise, and ensure that conflicts of interest policies and procedures are consistently adhered to.

Ensuring that a comprehensive conflict of interest policy is in place that requires full disclosure is a critical first step; strictly enforcing the policy is the most important aspect of eliminating conflict.

Every trustee should annually complete a conflict disclosure statement. While a conflict of interest policy defines what potential conflict is, the disclosure statement is the mechanism for individuals to declare any potential conflicts they may have.

No. 6

Failure to challenge anecdotal information with a demand for evidence

Boards deal with large amounts of complex information. It is important to evaluate the quantity and quality of information necessary to make strategic and policy decisions. Pre-meeting information should always be distributed far enough in advance of the meeting to ensure that trustees have adequate time for a thorough review and understanding of the issues they will discuss and vote on.

Too often the evidence that boards rely on to make decisions is anecdotal, disjointed or disconnected. The key to successful evidence-based decision-making lies in the intelligent use of “dashboards” and “balanced scorecards” that plot performance against expectations over time. This enables the board to govern through “strategic gap analysis,” where attention is focused where the most significant performance problems may be occurring.

One of the board’s primary challenges 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 what potential strategic gaps may be on the horizon.

With the input of the CEO and management team, the board should track performance in progress using a set of metrics, a periodic review process, and an incentive system to reward management for meeting organizational objectives. Well-designed progress indicators have several specific attributes. They are: 1) few in number; 2) strategically significant; 3) quantifiable and measurable; 4) time specific; and 5) consistently reported and used to determine and close strategic gaps.

Developing and using a set of hospital-specific performance indicators is a straightforward process. The board and management team must first determine what should be measured. Then data that indicates the degree of success in achieving the objective should be determined.

In some instances performance indicators become outdated based on new information or organizational changes. Rather than continue to rely on outdated or outmoded strategic progress indicators, the board should periodically update both its indicators and its performance expectations.

No. 7

Failure to hold the board accountable for performance

Governing performance self-assessment is an important preventive measure boards can take to ensure continual improvement in governing health and wellness. It’s one of the most reliable ways to identify and correct governance trouble spots before they spin out of control.

Successful self-assessments enable boards to identify “leadership gaps,” areas in which the board has the greatest potential for governance improvement. The governance self-assessment process identifies these gaps and facilitates the development and implementation of initiatives and strategies to improve leadership performance.

Through an effective, well-developed board self-assessment process growth opportunities may be realized, education may be pinpointed to unique governance needs, new trustee recruitment may be undertaken with increased confidence, and long-range planning may be conducted with a consensus-based framework with everybody on the same page.

A successful governance self-assessment engages the board in a wide-ranging evaluation of its overall leadership performance. In addition, it provides trustees with an opportunity to rate their personal performance as vital contributing members of the board of trustees. Finally, it should provide trustees with an opportunity to weigh in with their answers to several important questions, such as:

- What is your single highest priority for the board in the next year?
- What governance strengths must be maximized in order to ensure leadership success in the next year?
- What governance weaknesses must be overcome in order to ensure the hospital success in the next year?
- What are the most significant health care trends that the hospital's leadership must be able to understand and deal with in the next year? In the next five years?
- What challenges and issues are most critical to be addressed if the board is to be successful in leading strategic change in the next year?

It's also vital to carry the concept of governance self-assessment over to individual board meetings. Boards of trustees that conduct the most efficient and effective meetings fine-tune their meeting work through the use of individual board meeting evaluations.

These evaluations are designed to be completed in five minutes or less, and include yes-no answers with room for suggestions. Simple questions may include:

- Did the board chair lead the meeting skillfully?
- Was the agenda focused on the most critical issues facing the hospital?
- Was meeting time spent efficiently?
- Did all members participate in an active, value-added manner?
- Were the board materials helpful in stimulating understanding, dialogue and decision making?
- Did every trustee leave the meeting knowing what he/she needs to do next?

No. 8

Failure to reinvigorate and replenish governance human assets

How well hospital boards plan and execute the recruitment of new trustees defines the hospital's leadership success for years to come.

Governance succession planning is the key to not only filling an available board 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 critical future leadership requirements, the board can identify governance gaps that may be closed through targeted trustee recruitment.

A trustee succession plan should be developed to attract and recruit trustees that meet specific governance needs. These gaps will be different for each board and organization; while one board may need to minimize conflict of interest, another may seek greater financial expertise or an improved balance between visionary, “big picture” thinkers and more practical, “here and now” thinkers.

Properly identifying, assessing and successfully recruiting new trustees involves several steps. Boards should begin by conducting a comprehensive governance self-assessment to determine where they may have potential leadership gaps, either now or in the future.

After identifying specific characteristics and skill sets desired, the board should seek out and talk with a variety of candidates who may meet their requirements. Once a new trustee is selected, orientation and ongoing education is critical to ensure trustee success in providing strong and effective leadership to the hospital.

No. 9

Failure to understand real community needs and perceptions

Trustees are responsible for ensuring that their hospital's services provide meaningful benefit and value to the public. It is the board's responsibility to ensure that the hospital understands the needs of the community and strives to meet those needs. A community needs assessment is the best way to determine what the public wants and needs from a hospital.

A comprehensive community needs assessment can help a hospital address the health care needs of the community by providing a snapshot of the “health” of the community. The assessment can also provide information about other organizations that may be working to meet specific community needs, and where gaps in those services may lie. The assessment gives hospitals the intelligence needed to evaluate potential partnerships with community groups and organizations working on community issues. Finally, a comprehensive community needs assessment helps a hospital begin the planning process by providing the foundation for strategic and operational planning, assessing the hospital’s impact on the community, and deciding what strategies may provide the most viable opportunities for the hospital’s service to the community.

In addition to identifying community needs, the assessment process will improve the board’s strategic planning by providing clarity about needed services, and identifying specific, attainable goals for meeting community needs. Conducting an assessment also contributes toward the community benefit activities required of tax-exempt hospitals.

Completing a community needs assessment, creating a strategic plan based on its findings, and putting that plan into action demonstrates the hospital’s commitment to meeting the needs of the community.

No. 10

Never fail to focus on the big picture, rather than the little details

Today’s rapid-change health care environment requires trustees to continually lead their organizations “to the horizon.”

Hospital trustees must be able to provide strong, dynamic and effective leadership in the tumultuous years ahead for health care. Trustee teams must be willing to embrace new ideas, think in new ways, and adapt their leadership focus to anticipate the dramatic changes ahead. A forward thinking visionary board does not resist change, but instead embraces it.

Hospital boards must push for change, value creativity and innovation, and leverage change for strategic advantage. They must lead an organization that can capitalize on the new opportunities emerging from the rapid change occurring in health care today, and create new governance methods and structures to lead this change.

Boards of trustees must continually seek out new knowledge and perspectives about the health care field, the evolving environment, and its impact and implications on the hospital, its physicians, employees and the community. They must develop a high level of understanding of the areas most critical to organizational success in performance. And they must engage continual governance education and speed their understanding toward the development of informed decisions and direction. Passing knowledge is no longer enough – developing expertise requires motivation, commitment and time.

Boards must focus on new directions and new opportunities, not on the problems of yesterday and today. They must understand trends and strategic priorities, not projects and operational details. And they must create adequate time for discussion of the most significant issues affecting the future success of the hospital at every board meeting.