

## Four Focus Areas for Effective Board Governance

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The implementation of the Affordable Care Act has made the regulatory environment that health care boards of directors face progressively more complex and demanding. In recent years, many boards in the health care industry have been working to bolster the effectiveness of their organization's governance model. To run a health care organization efficiently, each board member must have a clearly defined understanding of the roles and responsibilities of the board from the outset.

The first step in bolstering the effectiveness of the governance model is to clearly define how the board's responsibilities contrast with management's. While the board is accountable for the general oversight of the organization, management is responsible for implementing the strategic initiatives the board has agreed to and running the organization's day-to-day operations. This delineation is important, because it clarifies the boundaries between board and management team roles. The board,

being responsible for governance, helps set the organization's goals, direction, limitations, and accountability frameworks.

Let's look at the board's four main areas of responsibility in greater detail.

### **Risk Assessment**

The board has a duty to oversee hospital management and ensure proper controls are in place to address strategic, operational, compliance, and financial risk. To do so, the board is responsible for understanding what internal controls exist to monitor each type of risk. It's also responsible for holding the appropriate managers accountable for following prescribed processes.

As part of managing risk assessments, the board must also ensure that management is consulting with the appropriate technical experts and that it's conducting formal and periodic enterprise risk assessments, including assessments of regulatory and environmental risk.

### **Management Development**

Ensuring a strong management

team and a consistent pipeline of potential successors for leadership in each vertical also falls into the board's territory. Specifically, boards should address CEO and top-executive succession planning, considering both internal and external candidates.

During this comprehensive process, boards should look at the broader talent pool at their organizations and take a role in understanding and providing advice on the development programs that exist for executives. Leadership development programs at all levels of the organization are a critical aspect of developing appropriate succession throughout the organization.

Board members also need to identify what attributes are most important in each leadership position, helping to define appropriate compensation and ensure incentives are aligned.

### **Financial Fundamentals**

The board is also responsible for overseeing an organization's financial performance and for assessing and monitoring financial management and reporting systems throughout the organization. As part of this task, boards should gain an understanding of the internal

controls that management has put in place to ensure transparent and accurate financial reporting.

External auditors are one of the resources the board can employ in its assessment of these controls; however, its responsibilities don't end there. The board is ultimately responsible for holding management responsible for remediating the external auditor's findings as well.

One of the board's members should be a financial expert who can evaluate the hospital's key financial metrics during the risk-assessment process and provide advice to the board during the assessment of the internal controls around financial reporting.

### **Hospital Operations**

Although most boards aren't directly involved in day-to-day operations, they remain responsible for overseeing management and making key strategic decisions. These decisions include the authorization of major financial transactions and the hiring and evaluation of an organization's senior officers and high-level employees. The board also should ensure that the organization adheres to its mission and values at all times.

## **Improve Your Board's Effectiveness**

There are several measures organizations can take to ensure they have an effective board in place. Board member selections should be carefully considered by representatives of key stakeholders and should create a diverse and well-qualified group. Boards should take care to select individuals who are uniquely positioned to serve as expert advisors in one of the primary areas above, rather than simply selecting the organization's biggest financial contributors.

Additionally, regular and structured meetings can help maintain alignment across board members and ensure that management teams have regular direction and guidance.

### **We're Here to Help**

To learn more about best practices for building a strong board and ensuring effective governance for your organization, contact your Moss Adams health care professional.

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