

Most Commonly Asked Questions About Board Committees

by Barry S. Bader and Pamela R. Knecht

Committees are the engines that power the board's oversight, planning and decision making functions. By focusing on one area such as finance, quality or corporate compliance, committees enable the board to fulfill its fiduciary duties over the full range of governance responsibilities more efficiently and effectively than the full board could do. Effective committees can significantly improve the board's overall effectiveness by allowing the full board to expeditiously review and approve committee work, opening up more time at full board meetings for substantive discussion on large and future-oriented issues. The increasing size and complexity of hospitals and health systems, coupled with emerging strategic challenges, makes effective committee work more essential than ever.

Here are some of the questions that we as governance consultants hear most frequently about board committees.

Q: Which committees should our board have?

A: Boards create committees for one reason: to help the full board do its work by performing one or more of these tasks:

- In-depth oversight ...
 - ◊ of organizational performance versus goals in such areas as finance, quality of care and strategic plan implementation
 - ◊ of management recommendations regarding major new programs and transactions
 - ◊ of ethical and compliance matters
 - ◊ of decisions requiring board action, such as physician credentialing

- Early-stage inquiry, education, and discussion of trends, plans and decisions, to frame the issues and options that ultimately will come to the full board
- Sounding board for management to draw on the committee's expertise and judgment on matters that don't require formal board action.

To perform these tasks, the most commonly created board committees are, according to the most recent survey by the American Hospital Association's Center for Healthcare Governance:

- Finance (83%)
- Quality (75%)
- Executive (68%)
- Governance and nominating (60%)
- Audit and compliance (51%)
- Strategic planning (44%)
- Executive compensation (36%)
- Physician relations (35%)
- Fund-raising/Development (18%)
- Community benefit/Mission (14%)
- Government relations (4%)

Q: What should go into a committee charter, and how often should the board review and update it?

A: The charter should describe the committee's overall purpose, authority, specific responsibilities, the reports it reviews and their frequency, the meeting schedule, size, composition (including expectations regarding independence), terms, term limits (if any) and required/desired competencies. It is also helpful to include a description of the committee's leadership (e.g., Chair and Vice

Chair) and to identify who will be staff to the committee (e.g., CFO for the Finance Committee). An annual update is advisable to accommodate emerging issues and changes to the committee membership and calendar.

Like the full board, committees should also have a few annual goals, and an annual work and education plan.

Q: How large should committees be?

A: The ideal working size for a committee is the smallest range that balances the need for subject matter competence and effective group interaction. Most committees, especially audit, corporate compliance and executive compensation, work well with five to seven members. Committees with broader responsibilities, such as strategic planning, finance, community benefit and possibly quality, may benefit by inclusion of more stakeholders and be a bit larger. However, as committees grow to double digits, size may compromise their ability to work efficiently and coalesce into a focused team.

Q: Should non-board members serve on committees? Should they vote?

A: Adding non-board members can be a beneficial practice for several reasons: adding expertise not present on the board, engaging potential future board members, broadening stakeholder input and board diversity, and helping small boards populate committees with a critical mass for a working group.

The bylaws and committee charter should clarify whether non-board members may vote. Generally, if a committee is making recommendations to the full board, then all committee members may vote; if the committee is empowered by the board to take final action, however, then usually, only full board members vote. Check with your counsel.

continued on page 5

Q: *Should committees make final decisions on the board's behalf?*

A: All committee authority comes from the full board. Committees assist the board by bringing reports and recommendations for board action. The only final decisions a committee may make are those for which the full board has granted authority and decision-making guidelines in the bylaws or in a formal policy. As health systems grow larger, more boards are delegating certain decisions to committees. For example, in some systems, finance committees may approve final transactions and capital spending up to certain dollar thresholds, and governance committees may approve appointments to subsidiary boards. A quality committee may approve physician credentials with "clean" applications. If any committees are given final authority, they should be careful to keep the full board informed of their actions and to avoid becoming a "board within a board."

Q: *Our board meetings have a consent agenda – should our committees still make individual reports or just be included in the consent agenda?*

A: Routine committee reports and actions needing board ratification can generally be included in the consent agenda, with committee minutes providing clear background documentation. A committee should make a formal report in certain circumstances, such as recommending a major transaction, decision or board policy, and taking corrective action in response to a significant variance from goals. In other words, the committee should make a verbal report in the board meeting when there is a specific "ask" for action; not for a status report on the committee's work. In addition, each committee should report at least annually on its oversight activities and engage the board in discussion. If a committee is overseeing a developing matter, such as a pending acquisition or compliance investigation, then an update in addition to the consent agenda may be appropriate. Use common sense to guide what the board should know.



Q: *Who should make the committee's report to the full board?*

A: When a committee report is made, the committee chair should report, to build the board's confidence in the committee's (rather than staff's) understanding and oversight of the issues at hand. A committee's chief staff person certainly should be ready to supplement the chair's reports, answer questions, and make presentations, but it's the chair who carries the torch of fiduciary duty.

Q: *What information should committees have?*

A: Committees generally need several kinds of information tailored to their responsibilities, including:

- Quantitative reports, in dashboard-like formats, comparing actual performance with goals and highlighting significant variances and "red flags"
- Summary reports for lengthy narrative reports that highlight significant issues and concerns for board information or action
- Background reading on current and emerging trends and legislation or regulations

Q: *How often should committees meet?*

A: The frequency of the committee meetings should correlate with the board meeting frequency and the committee's responsibilities. For instance, if the board is meeting 10-12 times a year, it is common for the finance committee to meet monthly. However, the audit and compliance committee may only need to meet twice a year. If a board is meeting quarterly (like many systems), it is especially important to carefully think through how often and when the committees need to meet. In any event, an annual meeting calendar should be created that ensures that each committee meets prior to the board meeting with sufficient time to provide minutes and reports in the board packet.

Q: *Should committee performance be assessed?*

A: Absolutely, yes. The full board's self-assessment should include questions about committee effectiveness, and each committee should assess its charter, goals, makeup, reports, policies and practices every one to two years. For practical guidelines on a committee assessment process, see *Great Boards, Summer 2008*. For more information on conducting committee assessments, contact the AHA Center for Healthcare Governance at info@americangovernance.com.

Q: *Our health system includes a number of subsidiary boards – should they have committees that duplicate the functions of system board committees, especially for finance and quality?*

A: The answer really depends on the size of the system and degree of autonomy and fiduciary responsibility the system board has delegated to subsidiary boards. In multiple hospital systems serving a tight knit geographic market with highly integrated budgeting and patient care delivery, it is more likely that there will be one committee structure at the system level, versus having separate committees at the parent and operating unit entity level. In this scenario, the system board committees support system-wide integration and optimization. In larger systems that have regional subsidiary boards, committees of subsidiary boards make greater sense.

The question requires careful thought and intentional selection of a committee structure that adds value. Local committees should not be allowed to subvert system-wide strategic alignment and integration, but at the same time, systems should be cautious in abolishing committees that add needed advocacy of community and stakeholder perspectives and expert oversight to local management. It is important to ensure that the committee structure reflects the authority of the subsidiary board. For instance, if the system board retains authority for finance, it may not make

sense for the subsidiary board to have a finance committee. If, however, one of the subsidiary board's primary responsibilities is quality and safety, it might choose to have a committee to assist it with that work.

Q: *As health systems become more transparent, integrated and accountable, how should committee work change?*

“The increasing size and complexity of hospitals and health systems, coupled with emerging strategic challenges, makes effective committee work more essential than ever.”

A: That will vary among health systems, but a few changes to common committees include these:

- **Mission and strategy:** Are there programs, services and facilities we've provided in the past that should be discontinued or provided with a strategic partner?
- **Finance:** How will new payment systems such as bundled payments and quality incentives affect our financial performance? How ready are we for the changes ahead?
- **Quality:** How ready are we to be accountable for the integrated costs, clinical outcomes and safety of the care we provide with physicians

and others along the continuum of care?

- **Governance:** Have we considered new competencies our board may need such as population health improvement and enterprise risk management?
- **Executive and physician compensation:** As our health system employs more and more physicians, is our physician compensation philosophy and plan in full compliance with federal requirements?
 - **Community benefit:** Do we understand how to identify and address health disparities in our community that compromise our ability to pursue our mission?

Have more questions? Barry Bader and Pamela Knecht will lead an interactive session on committee effectiveness at the Center for Healthcare Governance's Fall Symposium October 6-8 in Chicago.

Barry S. Bader is president of Bader & Associates, Scottsdale, Ariz., and is the founder of *Great Boards*. Pamela R. Knecht is president and chief executive officer of ACCORD Limited in Chicago and is a consultant on governance and strategic planning.

National Symposium on Leading and Governing Healthcare Organizations



October 6-8, 2013
InterContinental
Chicago Magnificent Mile
Chicago, IL