

Public Transparency: Should You Be Proactive or Reactive?

Barry S. Bader, Edward A. Kazemek, Pamela R. Knecht, and Roger W. Witalis, FACHE

“WHY SHOULD WE PUT ALL this information on our Web site when the local newspaper and public aren’t asking us about it?” That was the pointed question raised by a hospital trustee at The Governance Institute’s Leadership Conference in Phoenix in March.

The question arose at a presentation by one of the authors (Mr. Bader) on the increasing demands on not-for-profit hospitals and health systems—from IRS, Congress, state governments and others—to demonstrate that they continue to deserve their tax-exempt status and the public’s trust.

Not-for-profits, Mr. Bader asserted, need to be more proactive in telling their communities about the organization’s good works and independent board oversight. He quoted Sister Carol Keehan, president of the Catholic Health Association: “When I was CEO at Providence Hospital (Washington, DC), I was concerned about community benefit every day, but I wasn’t concerned about counting it or publicizing it. I should have been.”

Since writing The Governance Institute’s white paper on institutional integrity in 2006, we have recommended that boards embrace the new era of public accountability and transparency. We believe hospitals should use a variety of media to communicate the community benefits they provide, quantitatively and with clear descriptions of their financial assistance policies and various programs of community health promotion, health education, and research. Hospitals must work to dispel the notion that community benefit means charity care and nothing more. Hospital Web sites are an important medium to present and explain the hospital’s quality of care, patient safety, and patient satisfaction scores. Not-for-profit boards should consider having a public Web page on governance, including photos and names of board members and descriptions of how the board is organized to carry out key governance processes, including audit oversight, establishing executive compensation, and leading quality improvement.

And so, after hearing all of this, the trustee at the conference in Phoenix asked, “Why not wait until we’re asked?”

The following week, this headline blasted across the front page of the Wall Street Journal: “Nonprofit Hospitals, Once for the Poor, Strike it Rich.”¹ The article, from the nation’s most respected and widely read business paper, slammed some highly-regarded health systems for their rising operating margins while providing (allegedly) less charity care than the value of their federal and state tax exemptions. The article wrongly equated charity care with community benefit. It ignored the importance of strong financial margins and balance sheets to generate capital to reinvest in new technology and facilities to meet community needs. Is there any doubt Congressional leaders will quote from this story at their next hearings on not-for-profit hospitals?

Days later, the *Boston Herald* reported that a state senator was proposing pay caps on hospital executives. He voiced outrage that



14 Boston-area CEOs earned upwards of a million dollars a year. The chairman of one medical center defended his executive’s pay package, saying the hospital CEO’s job is “equal to the responsibilities of any (corporate) CEO in town.” Was anyone listening?

Why be proactive? Because stories like these are on the rise. One day it’s CEO salaries, the next day it’s medical errors or clinical outcomes or charity care or conflicts of interest. The new Form 990 will bring even more information about community benefit, executive compensation, and governance practices into the public domain, and Medicare has added patient satisfaction surveys to the growing number of quality indicators available online. About 30 states require that hospitals file community benefit reports and some are considering minimum standards.

Why be proactive? Because myths and misinformation persist about what being tax-exempt requires, and without education of the press, policymakers, and the public, not-for-profit organizations will be held to arbitrary standards not based in law or regulations.

Finally, being proactive makes sense because many not-for-profits have great stories to tell. They conduct business with integrity and a profound sense of serving the community. Going public demonstrates that “we’ve got nothing to hide,” and we are proud of who we are and what we do.

Being more transparent with the public has another benefit. It gives the board a powerful reason to exercise ongoing oversight of institutional integrity. We advise boards to consider these agenda and action items:

- Establish a board policy on public transparency.
- Review the Form 990 with the board annually, including how the information is prepared and what the information means, and determine if the form along with an explanation should be posted on the hospital’s Web site.
- Establish community benefit goals, approve a community benefit plan, and monitor performance at least annually; consider forming a community benefit committee.
- Review the information that is publicly available about the organization’s clinical quality, patient safety, and patient satisfaction, and decide if relying on such sites (such as Hospital Compare) is sufficient or if the hospital should make its own quality report to the community.
- Ask legal counsel or a governance consultant to audit the board’s conflict-of-interest policies and procedures to ensure they meet new expectations for board independence.
- Consider whether the organization’s Web site should include information on governance.
- Consider using The Governance Institute’s “Institutional Integrity Self-Assessment” instrument.

When transparency becomes a core corporate value, everyone benefits.

¹ John Carreyrou and Barbara Martinez, “Nonprofit Hospitals, Once for the Poor, Strike it Rich,” *The Wall Street Journal*, April 4, 2008.