

Volume 3 / Issue 2 / 2008 - Management

Hospital Governance and IT

Can IT-mediated corporate governance systems derived from (and generated by) private sector companies be applied to hospitals, in particular the non-profit hospitals which underpin the European healthcare landscape ?

Across most of Europe, hospital boards oversee policies/strategies, financial plans and other operational activities, and many review and occasionally contest strategic plans and directions. In the private sector, it is clear that a solid, intelligently structured board can greatly enhance an organisation's performance. The key to this is coherence and transparency in authority and responsibility. In spite of parallels, there is however so far little comparative data available for the healthcare sector, and thus little in the way of guidance. Emerging IT solutions are expected to play a key role in both auditing performance and setting transparent metrics and scorecards for governance.

Cynthia Van Hulle

is Professor at FBECatholic

University of

Leuven, Belgium.

Since several years, governance issues have received considerable attention, and interest in the concept remains on the rise, both in the corporate world and beyond. Indeed, nine years ago, a commentary

by then-World Bank President J.D Wolfensohn in the 'Economist' noted that "the governance of corporations is now as important in the world economy as the government of countries."

In essence, governance concerns the design of the top structures of an organisation such that appropriate goals are defined, suitable people placed at the helm and management pursues organisational goals as effectively as possible.

Interest in governance issues has been spreading quickly among non-profit organizations too, as they increasingly recognise that for them too, governance is a matter of importance.

As large organisations using vast amounts of resources and fulfilling key societal needs, hospitals in particular are under rising pressure to create decent governance structures. This raises the question as to what extent recipes from the corporate sector can be used by hospitals too.

The underlying theme of this article is that the core concepts and ideas derived from the corporate world are perfectly applicable to hospitals. However, the latter usually face extra challenges in the creation of a good governance structure (as compared to a corporate setting).

IT may contribute to solving these specific problems.

The Root Of The Governance Problem: Top Management Has No Hierarchical Boss

One of the main challenges in designing a governance system is the fact that, contrary to the remainder of the organisation, top management has no hierarchical boss. Hence, unless appropriate structures are put in place, it is not straightforward to ascertain that top management positions are filled with appropriate people, management chooses the right objectives and finally goals are effectively and efficiently pursued; these are, after all, the functions normally performed by a "boss" relative to subordinates.

The answer to such questions lies in the development of a system of checks and balances. This consists of controls whereby separate parties within the governance system of the organisation are made accountable to define "appropriate" goals for the organisation and limit each others' power to deviate from these goals.

Such a technique presumes that the system can be constructed to align the longterm interests of individual managers and board members with those of the entire enterprise and its stakeholders. Selfinterest then becomes an important incentive for mutual steering and control.

To that end, the parties involved and their interests must be well defined and made known throughout the entire organisation. This implies a clear demarcation of responsibilities, and a transparent structure with a timely flow of appropriate information.

Non-Profit Hospital Governance: A Fascinating But Difficult Problem ...

The above description comprises the essence of all existing governance models. Hence there is no reason why it should not apply to the non-profit sector, to which many hospitals belong.

Yet the actual configuration of checks and balances will depend on contextual element and therefore demand knowledge of regulations and other characteristics of the organisation. This is certainly true for hospitals. However, in their case (as compared to corporations), the design of the governance system generally requires facing some key additional problems, as explained below.

What are the goals of the hospital and who defines them ?

In the case of corporations, the last decade has seen growing pressure on firms from owners to pursue profitability and shareholder value. As a result, the question of goal setting has been solved while the realisation of the goal (i.e. profits and stock market value) is relatively simple to evaluate.

For non-profit hospitals, however, the problem is much more complicated. In particular, although the originators of the organisation (general meeting) and board typically have a perspective on the underlying mission of the hospital, goal setting and the weighting of conflicting interests is difficult, especially as one is dealing with fundamental societal issues like human health.

How to involve independent physicians in decision structures ?

Contrary to the corporate case, where all "workers" are typically employees, in many hospitals physicians are simply users of the facilities. Hence, although they have a major impact on all aspects of the organisation, these physicians are not subject to a hierarchical relationship with the management of the hospital.

This poses the question of how to involve them in the organisation, taking into account conflicting interests among physicians on the one hand, and conflicting interests between the latter and the hospital on the other.

An Important Role for IT in Hospital Governance

The challenges mentioned above enhance the importance of a clear definition of the mission, of an explicit translation of the mission into goals and a further specification of responsibilities and measurable outcomes (e.g. through balance scorecard techniques).

In reality, hospitals increasingly pay attention to the development of such an encompassing plan for care activities as it improves transparency, offers opportunities to involve all parties intervening in the care process (i.e. the physicians too) and generally helps reduce disagreements. Both the construction and the implementation of such a plan involves correct and timely information and hence an appropriate IT-management. In fact, the latter should support the organisation in effectively and efficiently realising its goals in all its aspects.

In a hospital in particular, goals are often qualitative, measurement is complex and therefore usually involves the gathering of significant amounts of information. Furthermore, in an efficient hospital organisation, IT should also support the physicians, nurses and other workers in realising high quality services to meet rising patients demands as well as providing increasingly complex and integrated care programs.

Simultaneously, it is evident that systems too should be cost effective. Thereby operational risks, like a breakdown in IT infrastructure or incompatibilities causing erroneous measurement in treatment processes, should be kept under control. Finally, IT may become strategic in nature when choices in configurations involve large investments and fundamental options.

Conclusions

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The quality of a governance system is driven by the quality of its checks and balances. Keeping these checks in balance however is quite difficult, and hence it is not surprising that once in a while some governance problems occur within an organisation.

However, given that transparency and information flow are both crucial, IT systems supporting the organisation can be brought to play an important role and significantly contribute to keeping the overarching structures of governance in balance.

Furthermore, not only at the top, but also at all levels of the organisation, correct information flow is crucial in effective functioning. The board should be aware of the strategic impact of IT, and how it contributes to the improvement of the organisation.

The leveraging of IT for enhancing corporate governance in hospitals is still in its early stages, and consists principally of bespoke adaptations to existing ERP/MIS packages.

The core challenge in the coming years is to define and use agreed criteria (including benchmarks and best practices) to continuously collect, collate and present high-level information.

The IT systems and sub-systems for corporate governance need to be permanently “boardroom ready”, to provide structured results on demand – and communicate this intelligently both upwards to the Board and downwards to concerned hospital staff.

Comment:

In many European countries, hospitals are owned or co-owned by local and/or regional and/or federal governments, as well as universities.

The boards of many such hospitals encompass representatives of local, regional and federal governments, as well as employees and external professionals – to engender close (often informal) ties between owners and managers.

The underlying interests of these groups are often not consonant. Medical and financial performance targets are also rarely of the hard kind usually associated with private corporations. As a result, corporate performance is not a clear priority, and disputes can lead to higher managerial autonomy at the expense of ‘owners’.

Checklist:

- Ó Independent/non-executive/politically-appointed directors have clear guidelines on roles and responsibilities.
- Ó Internet Alert service for hospital directors on new regulatory developments.
- Ó New directors orientation programme.
- Ó Code on Best Practices, Minimum Good Practices.
- Ó The role of IT in the operation and review of internal control methodologies, including routine audits – especially of financial systems.
- Ó Is the IT system outsourced to specialists ?
- Ó How often is an audit undertaken ?
- Ó Is there continuous improvement and benchmarking?

Published on : Sun, 3 Feb 2008