

Improving Information To Ensure Accountability

MARTHA TORY

Clarkson Gordon, Chartered Accountants, Toronto

Board members of both private and public sector organizations are giving more and more thought to their responsibilities. They are asking themselves: What am I responsible for and what must I do to carry out these responsibilities? This concern has arisen for two reasons. First, there has been much discussion in the press about the potential liabilities of directors if they do not properly carry out their responsibilities. Secondly, many public sector organizations have been facing deficits and thus need to make hard choices. It has become necessary for directors to determine exactly what role they should be playing in these decisions.

This article will focus on the responsibilities of the board members of public sector organizations and will address these questions:

- What are a board member's responsibilities?
- How well are board members carrying out these responsibilities?
- What steps can be taken to improve the way in which board members carry out their responsibilities?

My comments are based on personal experience as a member of the boards of several not-for-profit organizations. Specific examples are drawn from a research project with which I have been involved over the last two years. This project, sponsored by the Canadian Comprehensive Auditing Foundation, focused on the obligation for accountability in hospitals and the means by which this obligation is discharged. In particular, it looked at the role of boards and the ways in which board members can be provided with the information that is commensurate with the scope and level of their responsibilities. As a result of the project, a report was published in June 1987 entitled, "Canadian Hospitals: Accountability and Information for Cost-Effectiveness—An Agenda for Action".

What Are a Board Member's Responsibilities?

Board members are normally accountable to the general public or to the members of the organization they serve for the organization's operations. There are a number of specific responsibilities, varying from organization to organization, that support this general responsibility. However, there are a number of broad areas in which I believe there is general agreement that all boards have responsibility:

Organization

- Organization and operating procedures of the board and its committees
- Selection, direction and evaluation of the chief executive officer.

Strategic Planning and Policy Framework

- Determination of the organization's mission
- Establishment (and periodic review and modification) of a strategic plan, goals, and objectives to achieve that mission
- Establishment of internal policies to guide the operations of the organization.

External Relations

- Establishment and maintenance of appropriate external relationships with the community, governments and other interested parties.

Resource Acquisition

- Determination of the human, physical and financial resources required to carry out the organization's mission
- Acquisition of the necessary financial resources
- Ensuring the availability of the requisite human and physical resources.

Resource Management

- Effective operation of appropriate policies and procedures for personnel management and development, resource management and physical security, accompanied by suitable monitoring and reporting systems.

Quality

- Assurance of good quality services through:
 - provision of appropriate and safe facilities and equipment
 - existence of appropriate policies and procedures to guide operations
 - ensuring reasonable care in the selection and retention of employees
 - ensuring an appropriate system for monitoring and improving quality of service.

How Well Are Board Members Discharging Their Responsibilities?

In order to discharge their responsibilities, board members need information. Since the day-to-day responsibility for running the organization is normally delegated to management, board members need information about how these delegated responsibilities have been carried out. Management must provide this information in order to discharge its obligation for accountability, i.e., the

obligation to answer for a responsibility that has been conferred.

To discharge their obligation for accountability effectively, the information provided by management needs to cover all aspects of the responsibilities that have been delegated. However, based on my experience and discussions with others involved in not-for-profit organizations, I believe substantial improvements can be made in both the kinds of information provided and in the use of this information to ensure accountability. Certainly, the CCAF study reached this conclusion with respect to hospitals.

Board members normally receive a limited amount of information and much of the information they do receive is related to their responsibility for financial stewardship. Boards normally receive budgets and regular comparisons between the budget and actual financial results. Very limited information is normally provided on outputs and the relationship between costs and outputs. However, the board member's responsibilities include ensuring that the organization is run with due regard for economy, efficiency and effectiveness. A board member needs information that goes beyond financial summaries of operations in order to carry out this responsibility.

What Improvements Will Help Board Members Discharge Their Responsibilities?

To better discharge their obligations, board members need information about the full range of their responsibilities. It has been my experience that a number of steps are required to obtain this information. My comments and suggestions are based on the approach we took in a not-for-profit agency of which I am president.

Our first step was to define the respective responsibilities of the board and management more carefully. For example, there had been situations where the board had traditionally been involved in day-to-day management decisions. To reverse this tendency, we first changed our committee structure. The changes were designed to focus, where appropriate, the attention of the committees on policy-related issues and the monitoring of management's performance. However, we recognized that some committees should continue to be involved in the day-to-day operations of the agency because they provided expertise and time not available from our management team. For example, we are not large enough to afford sophisticated human resource management so we obtain this expertise from a committee which thus becomes quite involved in making personnel decisions.

Our next step was to begin improving the board's general knowledge of the agency. We revised our board manual to include additional information and devoted several meetings to presentations dealing with the operations of the agency. Board education is a continuing process that never ends. It takes time and effort to provide sufficient background so that board members can carry out their responsibilities effectively.

One of the most important steps we took was to initiate a strategic planning process which was designed to define more clearly the role of the agency and the principles that should guide our operations. Without a clear definition of what an organization wants to do, it is difficult to judge its effectiveness. I believe strategic planning is one of the board's most important responsibilities but is a responsibility that we had not carried out effectively in the past and had essentially abdicated to management. Management had always conscientiously considered the direction the agency should take but it is difficult for managers to approach strategic decisions with an appropriate amount of objectivity since these decisions can have a very major impact on their day-to-day activities. One of the most difficult decisions is to revise longer-term objectives which might involve eliminating particular programs. Although such a decision is not easy for a board either, it is certainly easier for the board to approach the issue in an objective manner.

Once we had completed the first stages of the strategic planning process and had defined a general direction for the agency, we asked managers to define annual objectives designed to carry out our mandate. Although the process of defining annual objectives was complicated because we lacked a final document outlining our mandate and operating principles, we believed that we had to get started on the next steps of our reorganization.

At the same time, we asked management to develop a comprehensive set of indicators that would allow the board to monitor their performance in meeting the annual objectives. We wanted these indicators to display certain characteristics:

- they should relate to the key factors for successfully achieving the annual objectives;
- they should be specific and, to the extent possible, quantifiable to make it easier to determine whether they were being accomplished;
- they should be as simple as possible but sophisticated enough to allow board members to draw appropriate conclusions; and
- taken together they should allow the board to judge the effectiveness of resource acquisition, resource management and the quality of service provided.

Like most organizations, we found that much information was already being collected in our agency. Computerization has made it easier to collect, compile and analyze information in many not-for-profit organizations and performance-related information is already collected on a regular basis for various purposes in most organizations.

For example, the CCAF hospital research study identified this information currently available in hospitals which was related to the quality of care and resource management:

Quality of Care

- average waiting time for elective admission by service
- number of beds filled with inappropriate patients (i.e., patients requiring different accommodation)
- staff turnover for full-time employees
- number of incomplete/overdue patient charts
- results of routine patient satisfaction survey (or summary of unsolicited patient complaints)
- complication rate.

Resource Management

- trends in patient volumes (cases, days, visits, operations, deliveries, etc.)
- proportion of surgery done on a day-surgery basis
- average length of stay
- proportion of paid hours allocated to direct patient care
- paid hours per patient day

A working group of the Committee of Vice-Chancellors and Principals of the Universities of the United Kingdom has published a set of similar performance indicators for universities. Examples of some of the initial indicators that they suggest be collected in universities are:

- expenditures per full-time equivalent (FTE) student
- occupation of graduates after 12 months/5 years
- editorships of journals/officers of learned bodies
- administrative/library/sports/etc. costs per FTE student
- ratio of support staff to academics.

Examples of the indicators we are considering for the counselling portion of the services provided by our agency include:

- number of interviews completed
- average length of interview
- length of waiting lists
- cost per interview.

In choosing indicators for reporting to the board, consideration has to be given to the appropriate level of detail. To make the information more useful, it is also helpful to provide comparisons of previously set performance standards or targets with actual results. Another possible comparison can be made with results from previous years. In addition, to be really informative, the indicators often need to be accompanied by an explanation of both their meaning and any anomalies.

In another recent publication, the Canadian Comprehensive Auditing Foundation has provided a framework within which the effectiveness of an organization can be judged and which also provides a checklist of issues to be considered in developing performance indicators:

- *Management Direction:* The extent to which the objectives of an organization, its component programs or lines of business, and the roles of its employees, are clear, well-integrated and understood, and appropriately reflected in the organization's plans, structure, delegations of authority and decision-making processes.
- *Relevance:* The extent to which a program or line of business continues to make sense in regard to the problems or conditions to which it is intended to respond.
- *Appropriateness:* The extent to which the design of a program or its major components and the level of effort being exerted are logical in light of the specific objectives to be achieved.
- *Achievement of Intended Results:* The extent to which goals and objectives have been realized.
- *Acceptance:* The extent to which the constituencies or customers for whom a program or line of business is designed judge it to be satisfactory.
- *Secondary Impacts:* The extent to which other significant consequences, either intended or unintended and either positive or negative, have occurred.
- *Cost and Productivity:* The relationships among costs, inputs and outputs.
- *Responsiveness:* An organization's ability to adapt to changes in such factors as markets, competition, available funding or technology.
- *Financial Results:* The matching of, and the accounting for, revenues and costs and the accounting for, and valuation of, assets, liabilities and equity.
- *Working Environment:* The extent to which the organization provides an appropriate working atmosphere for its employees, provides appropriate opportunities for development and achievement, and promotes commitment, initiative and safety.
- *Protection of Assets:* The extent to which important assets—sources of supply, valuable property, key personnel, agreements, and important records or information—are safeguarded so that the organization is protected from losses that could threaten its success, credibility, continuity and perhaps, its very existence.
- *Monitoring and Reporting:* The extent to which key matters pertaining to performance and organizational strength are identified, reported, and carefully monitored.

Performance indicators can only provide a part of the information needed. Board members also require results of a sufficient number of in-depth reviews

of key aspects of the organization's operations to ensure that all significant aspects of the operations are reviewed periodically. These reviews can be carried out by people either internal or external to the organization, however they should be done by someone with sufficient objectivity to provide reliable conclusions. The accreditation reviews currently carried out in some not-for-profit organizations would be an example of an in-depth review.

The CCAF hospital research project identified a list of potential issues that could be addressed by an in-depth review in a hospital. (The expectation was that reviews would focus on the more important areas and only provide answers to the questions of most significance.) Although the questions relate specifically to hospitals, they are useful guides for any not-for-profit organization to consider.

Are we doing the right thing?

- What is the program/service attempting to accomplish for the population it is designed to serve? Are objectives clear?
- Is the program/service necessary, given changes in population needs, technology and the activities of other health care providers in the area?
- Are other more necessary programs/services suffering because of the resources being used in this area?

Are we doing it the best way?

- Have alternative ways of meeting hospital objectives for the program/service been considered? Do we need to change the way we deliver the program to reflect changing circumstances, technology or advances in treatment patterns?
- Would collaboration with another hospital/agency result in improved cost-effectiveness?

How do we know how well we are doing?

- How did we establish what can be done? Has the relevant literature been reviewed and applied?
- How were performance standards developed and when was this done? Are the standards periodically reviewed and updated?
- How is performance routinely monitored against these standards? What reporting of results occurs and what kinds of action are taken as a result? Does re-monitoring assess the effects of action?
- Have any patterns been identified in the litigation experience of this program/service? What action has been taken?

What effect are we having?

- To what extent have the hospital objectives been achieved? Is the achievement level improving, stable or declining?

- Are the program's/service's clients satisfied? Is the level of satisfaction improving, stable or declining?

Are we doing it at a reasonable cost?

- How much does this program/service cost the hospital to operate? Are the costs increasing more rapidly than the hospital's funding level and why?
- What is the cause of trends in costs per patient treated? How do our unit costs compare to those of other hospitals?
- How much revenue does this program/service produce for the hospital? Why is this revenue increasing, stable or declining?

Is there clear accountability for this program/service?

- Is it clear who is responsible for doing what in delivering the program/service? Is performance monitored and reported?
- Do all those involved in the delivery of the program/service understand their responsibilities? Do needed decisions get made and implemented on a timely basis?

Are there other potential and actual impacts?

- Are patients appropriately referred to other programs and services in the hospital?
- How is unnecessary use of other services minimized? What actions have been taken to reduce unnecessary use and what happened as a result?
- Do the program's/service's operating methods cause unnecessary problems or costs for other areas of the hospital?
- Has the program/service resulted in other positive or negative consequences? How important are these consequences? Were they anticipated? Who is affected?

Are key assets protected and controlled?

- Where applicable, has a medical manpower plan been implemented?
- Are appropriate continuing medical education and staff development activities occurring?
- Are risks identified and monitored, incidents analyzed and appropriate action taken?
- Could materials, services and labour be obtained at a more economical price?
- Are materials adequately controlled? Does equipment receive adequate preventive maintenance? Are facilities properly maintained? Is physical security satisfactory?

Conclusion

Most board members of not-for-profit organizations face a significant challenge. They must carefully consider what their responsibilities are and ensure that they are in a position to carry them out. To carry out their responsibilities most

board members will require more information covering a much wider range of issues than they are getting at present. In order to define the information they need and to understand it, board members will have to ensure that they have a clear definition of the mandate of the organization and a complete understanding of the key aspects of the organization's operations. Once board members have defined their information needs, performance indicators can be developed to provide continuing reporting of management's performance. When this information is supplemented by the results of in-depth reviews, board members should be in a position to judge the economy, efficiency and effectiveness of the organization's operations and, therefore, able to carry out their responsibilities properly.