

Developing a Transformative Governance Culture



Contents

| | |
|---|----|
| Introduction | 3 |
| Transformative Trends | 6 |
| Transformative Leadership: What it is and How It's Achieved | 8 |
| The Role of the Governing Board in the Transformation..... | 11 |
| Assessing Governing Leadership for Transformation Success | 14 |

Introduction

A new American Hospital Association (AHA) resource entitled *"Leadership Toolkit for Redefining the H: Engaging Trustees and Communities"* points out that many hospitals today are focused on "redefining the H," exploring what it means to be a hospital in a rapidly transforming health care world. Among other things, the move from a fee-for-service to a value-based environment is prompting hospitals to more intensely focus on quality, embrace population health management and promote more integrated, better coordinated care. The goals include improving the health of the community through increased access to primary care, appropriate admissions and reduced inappropriate readmissions, along with making measurable gains in improving outcomes of care and reducing harm.

Hospital boards need to "redefine the G," determining the changes necessary to ensure that their governance structure and practices are fully capable of ensuring purposeful, productive leadership well into the future.

Achieving these goals will require hospital boards to concurrently "redefine the G," determining the changes necessary to ensure that their governance structure and practices are fully capable of ensuring purposeful, productive leadership well into the future. Boards will be increasingly responsible for fostering collaboration, supporting changes that will likely occur during these dynamic, transformative times and translating that change into positive action and better health outcomes for the community. Boards that clearly understand the environment, the uncertainty and the need to take carefully calculated risks will be most understanding and supportive of the leaders responsible for managing these risks, and leading the organization to greater success in the future.

In order to strengthen and sustain The hospital's capacity and opportunities for success in a complex, dynamic and transforming environment, the governing board should consider its current position in relation to several recommendations included in the report, including but not limited to:

- Become knowledgeable of hospitals' changing business model, how the "H" is being redefined, and understand new delivery system reforms and changes to the reimbursement system.

Boards will be increasingly responsible for fostering collaboration, supporting changes that will likely occur during these dynamic, transformative times and translating that change into positive action and better health outcomes for the community.

- Ensure that the board is both representative of the community, and also representative of the skills and competencies needed to successfully lead THE HOSPITAL through the transformation.
- Willingly and regularly engage with physicians and community stakeholders about the challenges faced by The hospital, learn from them about community needs and challenges, and work together to create plans and programs that align with community health needs and goals.
- Identify gaps in competencies and services.
- Collaborate and strengthen partnerships to facilitate greater community collaboration.
- Create a shared vision for future health care, including but not limited to the role of the hospital and the community.

The report notes that CEOs will need to be well-supported by the board when they encounter problems in taking risks and trying new ideas. The relationship can be enhanced through a clear understanding of one another's needs, responsibilities and expectations, clear and consistent communication, mutual goals and objectives, dialogue-rich and purposeful meetings, and a constant sharing of timely and critical information.

Boards must be "community connected" and be able to translate health needs of their communities; provide innovative thinking about ways to provide better integrated, more coordinated care across all care settings; serve as a liaison between the hospital and the community; be a leader in convening community stakeholders in the work of improving community health; and lead the organization to take necessary steps and adapt appropriately in light of the realities of the changing health care environment.

Further, "redefining the H" may require new structures and practices to effectively govern an increasingly complex organization with multiple clinical and operational units and functions. Board members will require new skills and tools in order to successfully consider and make challenging and difficult decisions in the face of complexity and uncertainty. They will need to be able to translate the health needs of their communities into action, typically by engaging in multi-dimensional affiliations and community partnerships. As The hospital works to redefine its "H," it will need to consider how it is governed, what skills, experience and expertise are required of board members not only today but well into the future, and innovate new governance avenues for ensuring leadership that is focused, relevant, purposeful and productive in carrying out its critical accountabilities.

"Redefining the H" may require new structures and practices to effectively govern an increasingly complex organization with multiple clinical and operational units and functions.

The *Leadership Toolkit* recommends four key practices that boards must be engaged in in order to be successful today and into the future.

Board members will require new skills and tools in order to successfully consider and make challenging and difficult decisions in the face of complexity and uncertainty.

As The hospital works to redefine its “H,” it will need to consider how it is governed, what skills, experience and expertise are required of board members not only today but well into the future, and innovate new governance avenues for ensuring leadership that is focused, relevant, purposeful and productive in carrying out its critical accountabilities.

- **First they must define a clear mission and vision for a transformed enterprise.** That involves considering a vision for improvement of the community’s health and approaches to address population health and manage risk. This creates an opportunity to build relationships and partnerships with others who have an opportunity to impact the overall health of the community.
- **Second, they must ensure an environment of mutual trust between the board and the CEO.** The board and the CEO rely on one another for support, consultation and advice, and complement one another’s strengths and responsibilities. The CEO must understand clearly what motivates each trustee in his or her governance activities, and be deeply knowledgeable about the interests and needs of each trustee. The CEO must also be well aware of any gaps in trustees’ understanding of current issues and trends, ensure that board knowledge building responds to trustees’ needs, and encourage trustees to learn and ask questions in an open, safe environment.
- **Third, they must establish a foundation of effective communication.** The board meeting is the center of communication and relationship success or failure. Effective, high-performance boards spend most of their time on important strategic and policy issues. They engage in rich discussion and dialogue, assess outcomes, and participate in ongoing education. They ensure meaningful time to focus on the issues that are most critical to the organization and its ability to achieve its mission and vision.
- **Fourth, they must build a board-CEO co-leadership partnership.** To avoid governance “purpose wandering,” roles and responsibilities must be clearly expressed in writing. This helps define the fine line between strategic leadership and operational leadership. Boards should energetically exercise “reasonable inquiry,” delve deeply into the rationale behind strategic thinking and proposals, and always relate the organization’s strategic focus and direction to its mission and vision.

Transformative Trends

Several forces are driving the need for knowledgeable, involved, adaptive, innovative and transformational governance leadership. The board's ability to understand and deal with the forces with the greatest relevance to and impact on The hospital will have a significant influence on both governance and organizational success.

Forces for Change

- **Volume to value**
- **Payer ascendancy**
- **Rising consumerism**
- **Transparency and innovation**
- **Lean margins**
- **Need for greater alignment across the continuum**
- **Increasing consolidation**
- **Power of IT**
- **Globalization**

- **Continued migration from payment for volume to payment for delivering high value.** The traditional fee-for-service system will continue to evolve into payment for an entire bundle of services, centered on a surgical experience or medical condition. In addition, health care providers will increasingly be compensated for improving the health of populations and avoiding inpatient and outpatient care.
- **The ascendancy of the payer will keep health insurers and employers firmly in the driver's seat.** Motivated by a desire to keep costs down in a globally competitive world and enabled by access to digital information on quality, payers will increasingly narrow the networks of hospitals and physicians they choose to pay based on "value," defined as quality/cost. Payers are acting on information compiled over years of study, tracking how much it costs for a patient to have one set of physicians/health care system vs. another. In particular, large employers, both locally and nationally, are steering those they ensure toward the greatest value. Behavioral economics - how consumers respond to monetary incentives or disincentives - will take effect as consumers find themselves having to cover increasingly larger co-pays and deductibles.
- **Consumerism is on the rise, and will increase.** Patients have become "shoppers," especially those with high deductible policies. Consumers are becoming smarter about their health care, and are shopping for services, quality and price as never before. This phenomenon will increase as the Internet facilitates transparency and further changes the way people evaluate their health care options.

Forward-thinking CEOs and governing boards have begun to think through opportunities for realigning the structure and practices of their governing boards to better respond to the requirements of transformation.

- **Transparency and innovation will continue to lead to organizational learning, change and improvement.** Transparency comes with the digitization of the health care record and ubiquitous Internet access. As health care increasingly “goes digital,” health care organizations and their partners will increasingly and more effectively transform data into information and knowledge using analytics to focus on areas of concern, ways of improving and preventing health risk.
- **The profit margin squeeze will accelerate.** As resources for health care payments dwindle, organizations will continually need to seek ways to do more with less. The best organizations will need to deliver greater efficiencies in care delivery while providing objectively better quality and safer care. Inpatient facilities may be repurposed, entire services may be eliminated and entirely new services created, and technology will continue to advance to care for patients in their own homes.
- **Strong alignment will become increasingly essential among patients, physicians, insurers, health care systems and pre-and post-hospital care organizations.** These pre-and post-hospital services include visiting home nurse services, skilled care facilities, assisted living, home rehabilitation, hospice and myriad of other outside the hospital services. Individual and community health will increasingly be addressed through unified “ecosystems” of patients and caregivers communicating seamlessly, with common goals and a focus on disease prevention and wellness.
- **Acquisitions, mergers and various contractual arrangements will continue** in pursuit of greater efficiencies, cost reductions, geographic coverage, care coordination, access to capital and tertiary clinical care.
- **Information technology** will facilitate care delivery, care management and mobile technologies.
- **Globalization of health care services will expand**, with patients ignoring traditional geographic boundaries for care. Retail providers, doctors on demand, “virtual care” and other innovations will continue to disrupt the traditional health care model.

Transformative Leadership: What it is, and How It's Achieved

Transformative Leaders Are...

- **Purpose driven**
- **People-driven**
- **Innovative**
- **Inspiring**
- **Relentless**
- **Ready to invest in change**

The concept of transformational leadership is open to a variety of interpretations. Transformational leadership may be defined as a leadership style that transforms people - both leaders and supporters - as well as other organizations for breakthrough results in improving quality, patient safety, the patient experience and population health.

Transformational leadership improves the performance, morale, motivation and dedication of leaders and their teams and supporters. Successful transformative leaders are able to make a strong case for why change must and can happen. They promote a common vision, lead change and innovation in an organized and thoughtful manner, and successfully integrate required change into the organization's DNA. Transformational leaders are inspirational, trustworthy and charismatic role models. They understand the strengths and weaknesses of their team and align them with tasks and goals to optimize performance. They foster high levels of personal commitment at every level in the organization.

The forces for change underway in the U.S. health care system demand leaders who can develop innovative leadership styles, structures and business models. As organizations are structured and operate in different ways, their leaders will need different competencies in order to succeed. Many forward-thinking CEOs and governing boards have begun to think through opportunities for realigning the structure and practices of their governing boards to better respond to the requirements of the transformation imperative. According to Russell Reynolds Associates, a global executive search and assessment firm, many are employing three broad strategies:

- Creating a platform for innovative leadership.
- Building the infrastructure for transformation.
- Establishing a framework for empowerment.

Carrying out these strategies will require several governance competencies including:

- Providing inspiration to combat "reform fatigue" and political and fiscal uncertainty.

Transformational leadership may be defined as a leadership style that transforms people - both leaders and supporters - as well as other organizations for breakthrough results in improving quality, patient safety, the patient experience and population health.

- Leading through uncertainty and “managing in two worlds,” making adjustments in real time without losing momentum, implementing visionary change and committing to continuous “governance gain” in leadership performance improvement.
- Achieving clarity on strategic direction.
- Understanding and adapting to the pace of evolution, and engaging in leading edge strategic thinking about avenues for proceeding “from here to there.”
- Assuring consensus across the organization about needed changes in the organization’s culture direction, and each person’s responsibility for achieving successful outcomes.
- Creating new organizations and partnerships that involve multiple constituencies.
- Developing outsourcing strategies to ensure access to best-in-class solutions.
- Driving development of an organization-wide culture that delivers high-value (quality, safety, patient and consumer satisfaction and cost efficiency).

In addition, in an article entitled “Are You a Transformational Leader?” authored by McKinsey & Company, four leadership differentiators for transformational leaders were identified. They are outlined below, along with ideas included in an article in *Governing* magazine entitled “What Transformational Leaders Do.”

- **Purpose-driven.** Transformational leaders motivate and inspire others with a strong sense of purpose. They articulate a vision that connects the purpose of the organization to that of the people they lead. They have strong communication skills that engage people in the vision so that followers are willing to invest more discretionary effort in the works, and are deeply engaged, no matter how challenging the task at hand.
- **People-driven.** Transformational leaders understand each person is unique, and they willingly play the role of mentor and coach to the people around them. They are empathetic and support the individual contributions of team members while at the same time challenging them to high standards.

- **Innovative.** Transformational leaders are change agents, and encourage others to be the same. They provide intellectual stimulation by encouraging curiosity, discovery, dialogue and debate so the best ideas can emerge. They nurture people to bring their full creativity and engagement to the governance process and develop people to think independently, and encourage risk-taking and continuous learning.
- **Inspiring.** Transformational leaders instill trust. They model integrity and ethical behavior. People understand their values, and that they “walk the talk.”
- **Relentless.** Transformational leaders are relentless about staying on purpose, and focused on achieving an inspiring vision.
- **Ready to invest in change.** Transformational leaders are willing to create a high-level blueprint for change, a picture of what a transformed organization may look like.

The Role of the Governing Board in the Health Care Transformation

Leading strategically, supporting disruptive innovation and driving boldness in efforts to improve the health of individuals and community are what make governance effective in transformed health care systems.

According to Jim Hinton, President and CEO of Presbyterian Healthcare Services in Albuquerque, New Mexico, and 2014 chair of the American Hospital Association, the work of boards to bring about and support the needed and evolving transformation in health care is critical. Leading strategically, supporting disruptive innovation and driving boldness in efforts to improve the health of individuals and community are what make governance effective in transformed health care systems, according to Hinton. What has worked well in the past likely will not be sufficient for tomorrow's success, and the same is true for governance. Heavier demands are being placed on boards, and they must be deeply engaged in understanding changing conditions and emerging trends. Strong health care governing board leaders are needed to engage as the forces of health care erupt and as hospitals and health systems continue their transformation journey.

According to findings in the Center for Healthcare Governance *2014 National Health Care Governance Survey Report*, engaging in transformational governance practices will be different for every board, but typically includes discussion and dialogue around key considerations for future board thinking, board competencies, and the organization's overall strategic direction. Findings include:

- Boards are somewhat to generally knowledgeable about the transformative changes occurring in health care, but fewer than one in five CEO survey respondents rated their boards as being "extremely knowledgeable."
- Boards are only somewhat engaged in examining emerging governing models and considering how they might apply for their organization. Fewer than one in five CEOs rated their boards as "actively engaged" in this area.
- Boards generally engage in strategic discussion about what health care transformation means to their organization and how best to deploy assets to meet community health needs. Still, fewer than one-third of CEO survey respondents rated their boards as being "actively engaged."

Strong health care governing board leaders are needed to engage as the forces of health care erupt and as hospitals and health systems continue their transformation journey.

- Similarly, boards overall are mostly “beginning to engage” or are “generally engaged” in developing a new vision and strategy for transformational change in their organizations; however fewer than one-third of CEOs rated their boards as “actively engaged.”
- Approximately two-thirds of survey respondents were either beginning to engage or were moving toward greater engagement in developing future-focused metrics that assess today’s performance and shape future outcomes. Fewer than one in five CEOs rated their boards as “actively engaged.”
- Approximately 60% of CEO survey respondents are either not very engaged or only beginning to engage in developing new or revised competencies required for board membership in a transformed environment. Fewer than one in 10 CEOs rated their board engagement in this area as being “actively engaged.”
- Finally, roughly 40% of CEO survey respondents rated their organizations as being “well on the way” in the journey to create a transformed health care organization, while a similar percentage see their boards as being very early in the transformation journey.

A Blue Ribbon Panel on Transformation facilitated by the AHA’s Center for Healthcare Governance identified several recommendations for transforming board work:

- Identify competencies, fill gaps
- Evaluate new governance models
- Decide if board member compensation is needed
- Consider broader roles for community leaders
- Ensure that board membership reflects the community
- Develop a high-performance governance culture
- Adopt governance “best practices”
- Evaluate performance at all levels of governance

The Panel also identified several leadership pathways to transform health care:

- Oversee continuous performance
- Discuss what transformation means
- Broaden compliance and enterprise risk management
- Strengthen change management capabilities
- Ensure development of patient and family engagement strategies
- Develop metrics to assess current and future performance
- Encourage provider collaboration, actively overseeing physician integration, engagement and leadership development
- Use Community Health Needs Assessment results to set strategy
- Assess executive capabilities to lead the transformation
- Create a compelling vision for the future

Assessing Governance Leadership for Transformation Success

“Level 5” governance requires a commitment to continuous learning, active participation in healthy, constructive governance dialogue, critical thinking, a willingness to invest the time required to understand current and emerging issues and challenges facing The hospital, and the capacity to challenge conventional thinking with courage and wisdom.

High-performance governance in today’s health care environment requires every trustee to clearly understand his or her responsibilities and accountabilities and practice what The Walker Company terms “Level 5” governance. Level 5 governance requires a commitment to continuous learning, active participation in healthy, constructive governance dialogue, critical thinking, a willingness to invest the time required to understand current and emerging issues and challenges facing The hospital, and the capacity to challenge conventional thinking with courage and wisdom. Level 5 trustees come to board meetings well-prepared to engage in deliberative, purposeful discussions, and lead with a focus on the organization’s strategic future. They are committed to excellence in their individual governance role, and in stimulating others to high performance leadership. They provide unique perspective and viewpoints that inform and enrich dialogue, and propel a singular focus on mission, vision and strategy.

In an April 2015 story written by The Walker Company in *Trustee* magazine entitled “Performance Priorities,” we emphasized that as the expectations increase for board leadership, governance practices and performance assessments must also evolve. In order to gain the greatest value from an assessment it should be anonymous, measurable and reportable, and should identify critical board-building challenges. The results should be used to drive a focused governing leadership improvement plan.

A “best in class” governance practices and performance assessment is a quantitative and qualitative evaluation of the board’s use of its performance in a broad range of governance responsibilities. It is a deeply introspective examination of the governance environment, processes, focus and performance, and board member ideas and recommendations for change to improve the board’s leadership performance. The combination of the assessment and development of resulting governance improvement plans will help the board to identify critical governance gaps and identify ways to close them to achieve and sustain leadership excellence.

An effective governance assessment is only the first step in developing the board to be highly effective strategic thinkers and leaders able to provide unique perspective, counsel and focus on achieving a transformative mission and vision during complex and

A “best in class” governance practices and performance assessment is a quantitative and qualitative evaluation of the board’s performance in a broad range of governance responsibilities. It is a deeply introspective examination of the governance environment, processes, focus and performance, and board member ideas and recommendations for change to improve the board’s leadership performance.

uncertain times. It establishes a benchmark for where the board believes it is today in a broad range of important areas, identifies governance strengths, weaknesses, opportunities and barriers, determines areas where board members may lack consensus, and results in prioritized action plans for improvement in the areas identified as needing attention.

Findings from the Center for Healthcare Governance *2014 National Health Care Governance Survey Report* revealed the following opinions of CEO respondents about their use of governance assessments:

- Approximately 60% of CEOs reported that their boards have conducted a full board assessment in the past three years.
- One-third have conducted an individual board self-assessment, while only 7% have assessed the performance of the chair, and 9% have assessed the performance of committees.
- Only 6% of surveyed CEOs reported that their boards conduct a peer assessment to evaluate the performance of each board member.
- One-quarter of respondents reported that they did not use their assessment to create an action plan to improve board, trustee or committee performance.
- Fewer than one-third of CEO respondents reported that their assessment results were used for reappointment of board members to additional terms.

In addition to conducting an annual governance practices and performance assessment, The Walker Company recommends that the hospital governing board consider and discuss the following questions as they define ways to provide superior governing leadership through the health care transformation:

- Thinking toward 2020, what critical skills and composition will be necessary for the future hospital board to possess? Does the board’s current membership represent the knowledge, skills and experience it will need to successfully navigate reform and the changing health care environment?
- What is the “culture” of the hospital board? How does it affect and influence senior leadership and the medical staff?
- Does the current hospital governance structure best position the entire organization for long-term success in the transforming health care environment?

An effective governance assessment is only the first step in developing the board to be highly effective strategic thinkers and leaders able to provide unique perspective, counsel and focus on achieving a transformative mission and vision during complex and uncertain times.

Insights derived from the assessment will drive an agenda for governing performance improvement that includes targeted governance education, governance succession planning, development of critical competencies required both today and for the future, and an ongoing process of building continuous “governance gain.”

- How nimble, active and deliberative are the board, leadership and medical staff leaders? What changes may be necessary to strengthen its needed attributes as health care continues its complex and uncertain transformative journey?
- How ready are the board, senior leadership and the medical staff to provide the leadership required to successfully navigate the trends and implications that will shape the environment in the next five years?
- What gaps in governance, leadership and medical staff knowledge and skills should be addressed?
- What governance practices should be abandoned, and what practices will be needed in order to ensure that the board operates at an “expert” level?
- Does the board understand who its key stakeholders are, and their most important needs and concerns?
- What perspectives and expertise has the board contributed to helping the organization create greater value for the communities it serves? What points of view or capabilities are missing?
- How has the board’s work and structure changed to reflect its role in guiding development of value-focused care delivery?
- Is the board taking an active role outside the boardroom to help improve the overall health of the communities the organization serves?
- How has the board contributed to developing a value-focus business and care delivery model that will be sustainable for the organization? What education or other resources does the board need to participate effectively in this work?
- How specifically does the board make a unique and meaningful difference for The hospital and the communities it serves?

Building better boards.

31090 SW Boones Bend Rd.

Wilsonville, OR 97070

503-694-8539

lw@walkercompany.com

www.walkercompany.com