Bold Board Leadership Required for Transformative Times

Now is the time for all boards to ask themselves fundamental questions such as: If we didn’t exist, what might be different? At the end of the day, have we improved the health of the communities we serve?

These and other soul-searching questions for boards are posed by an AHA Center for Healthcare Governance Blue Ribbon Panel in its December 2012 report, “Governance Practices in an Era of Health Care Transformation.”

The panel of hospital and health system trustees and CEOs, association executives, governance experts and educators shared their insights about how well boards are positioned today to guide their organizations through the significant changes facing health care organizations. The panel urged boards to be bold in their thinking and leadership and to transform the way they now govern to lead their organizations successfully through transformative times.

Results from interviews of 37 board members, executives and clinical leaders in four very different organizations (see Study Participants, page 16) informed the panel’s work, as it distilled key learnings applicable to all health care organizations and deliberated about such issues as:

• how well-prepared today’s boards are to partner with their organization’s leaders to guide their hospitals and systems through the challenges of transformation
• the most important contributions boards are making to help their hospitals and systems prepare for the significant changes occurring in health care
  • the conversations boards may not have had yet that would move their organization’s strategic plan forward
  • the key competencies boards will need to guide their organizations successfully into the future
  • where boards may be at greatest risk of impeding their organizations’ success

The panel identified the challenges with which all types and sizes of health care organizations are grappling in today’s environment. Panel members then reviewed where boards are strengthening governance practices and where significant opportunities for improvement still exist. Two sets of recommendations conclude the report: one set focuses on bold moves boards can make to improve their own governance practices; a second set outlines areas where boards can provide leadership to transform health care (see Panel Recommendations, page 17).

MOVING FROM VOLUME TO VALUE

Study participants and panel members identified the following key challenges.

Financial viability. Participants from all four organizations in the study were concerned about moving from fee-for-service payment to new models such as payment bundling and value-based purchasing in an environment of declining reimbursement and rising costs. Common themes were how to satisfactorily divide up a bundled payment between hospitals and physicians, providing better care for less money, and the stresses of straddling today’s and tomorrow’s payment and delivery systems during the transformation.

“We are a Pioneer Accountable Care Organization and have participated in shared savings arrangements with commercial payers,” said one system executive. “We know we can provide better outcomes, but what is the business model to sustain this? How will we be financially viable as we change the way we deliver care and reduce unnecessary care that erodes our margin?”

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BY MARY K. TOTTEN
Value. Reducing costs and improving quality and outcomes to create greater value is under way in all study organizations. Challenges include:

- reducing variation in medical practice across inpatient and outpatient settings
- removing inefficiencies to reduce care cost and improve outcomes
- understanding how to manage cost and outcomes for a population of patients

Boards should encourage their organizations to avoid reinventing the wheel, panel members said, and collaborate with each other and learn from evidenced-based initiatives that already have demonstrated how to improve quality and outcomes.

One system executive observed: “How do we change care in the primary setting? How does our primary care medical home model connect with specialty care? How do we change the business model from volume to value while still being paid on volume? ... How long can you live between today’s and tomorrow’s care models before moving on, because everything you do in the new model impacts revenue in the old model?”

Engaging physicians. Hospital organizations in the study are employing physicians to deliver care at the levels of cost and quality their communities desire. Some study participants were concerned about the costs of sustaining employment to keep physicians in the community as reimbursement continues to decline. Hospital organizations in the study cited the following challenges:

- recruiting quality practitioners who understand the organization’s limitations
- exploring governance structures for an employed medical staff
- addressing physician leadership formation
- working within financial and market limitations to attract physicians to smaller towns and rural areas

Systems in the study also identified these challenges:

- bringing together faculty, employed and independent physicians to advance clinical care
- applying research and practice from an academic medical center to improve care in community settings
- engaging multiple hospitals and hundreds of physicians to transform culture through a patient-centric approach to care delivery

Panel members said health care boards and leaders should determine how employing or contracting exclusively with physicians will change the organizations they govern and prepare for the related political battles.

Panelists also noted that tensions will emerge between hospitals and physicians locked into the drive for survival. When conflicts arise, they said, boards can be in the middle, without the necessary perspective and expertise to sort through the issues.

Affiliation. “Can we continue to survive as we are or do we need to affiliate or merge with a larger organization?” Many smaller and critical access hospitals face that question.

Neither of the hospital organizations in the study has yet decided to affiliate. “Several hospitals in our state have already aligned, but we have not,” said one study executive.

“There is concern about what alignment might mean for certain services we now provide.” A trustee noted, “… how does someone get care who needs it if the hospital is more than an hour away, and what kind of strategic alliance should be formed?”

Panel members said that for many smaller organizations the question is not if, but when they should affiliate. The challenge is to seize the “responsible moment” and decide to look for a partner when their organizations still offer value, rather than waiting until they are financially desperate.

The panel noted that transformational change offers an opportunity to ask such questions as:

- What do we want to become?
- What does it mean to have transformation in our organization?
- What issues are important to us?
- How does the voice of the community remain important?

Boards and CEOs need to have these conversations and facilitate them with other leaders and stakeholders, the panel said. Boards must “get comfortable with ambiguity and steep learning curves and more deeply engage with what transformation means and its likely impact.” Panel members encouraged boards to ask, “What happens if we do not change? If we don’t, can we survive?”

Change. Effectively dealing with the pace and complexity of change was a common concern for all organizations in the study. As one board member said: “Rising debt, lower reimbursement, over-the-top regulation, the complexity of the health care delivery system and global economic challenges provide a backdrop for a significantly stressed health care sector that deals with people’s lives. These are the issues that keep me up at night as I wonder, ‘What are we forgetting? What’s lurking out there?’”

Burnout and the risks of fast-moving change prompted some study participants to suggest that boards should control the pace of change for their organizations. Others were concerned that even if organizations are on top of the challenges facing them, will they be willing to take the steps required to transform?

As one board member said, “The board hasn’t yet made the leap needed to effectively govern a transformed health care organization. If we expect the organization to transform, then we must do so as well.”

Study Participants

- Beatrice (Neb.) Community Hospital & Health Center
- Fairview Health Services, Minneapolis
- Presbyterian Healthcare Services, Albuquerque, N.M.
- Rutland (Vt.) Regional Medical Center

Transforming Governance

Study participants and panelists explored how governance practices are
adding value and where opportunities for transforming governance still exist. Areas where boards have taken steps to improve include:

**Trustee selection.** Boards in the study are more rigorously selecting members by identifying prospective members with different skills and, when needed, going outside of the community to get them. They also are striving for board composition that reflects the communities served.

“We are looking for the skills needed to govern effectively in this environment,” said one hospital organization board member. And a study executive said, “I’m not sure the community-based model of governance is resilient enough; given the complexities and high stakes.”

**Education.** Ongoing, rather than intermittent, board education is essential for accountability, according to trustees in the study. “No more ‘ignorance is bliss’ and ‘we don’t know what we don’t know,’” said one hospital organization executive.

Study organizations linked board education to positive outcomes, such as building common cause with executives and clinical leaders and encouraging management to stretch performance and take risks. Visits to facilities that are part of an organization’s growing care system, Web-based courses and off-site learning were examples of effective options.

**Board meetings.** Asking tough questions, raising issues management may not have thought of, getting involved with more detailed information and sophisticated analysis and strengthening committee work are some ways boards are making the most of their meetings. Use of consent agendas and tying meeting agenda items to strategic priorities are techniques boards are using to free-up time for high-impact, focused discussion. Engaging in strategic dialogue at board meetings, some study participants said, has greatly improved communication between the board and management and strengthened management’s confidence that the board understands the issues.

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**Panel Recommendations**

**Bold Board Moves**

- Identify competencies for transformational governance; assess and fill gaps.
- Determine applicability of emerging governance models: expert, community-based and clinical enterprise boards.
- Determine whether board member compensation is necessary and permissible.
- For multiple-board health care systems and individual health care organizations joining larger systems, consider a broader role for community leaders in the health care enterprise.
- Ensure board membership reflects communities served.
- Adopt a high-performance culture.
- Adopt governance best practices.
- Evaluate performance at all levels of governance.

**Board Leadership in Transforming Health Care**

- Understand and oversee continuous improvement in performance.
- Discuss what transformation means for the organization.
- Broaden compliance and enterprise risk management.
- Strengthen board and organizational capabilities to manage change.
- Ensure development of patient and family engagement strategies.
- Develop governance dashboards that assess today’s performance and shape future outcomes.
- Encourage collaboration among providers to build the care systems of the future.
- Actively oversee physician alignment or integration, engagement and leadership development strategies.
- Use community health needs assessment results to set strategy.
- Assess executives’ capacity to lead transformational change.
- Create a compelling vision for the future.

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**Board contributions.** Study participants were asked to identify their respective board’s contributions in helping organizations get ready for significant change. They included:

- working to develop more future-focused performance metrics
- tolerating risk and accepting failure while being goal-oriented
- fostering the board’s own development and accountability to create an accountable organization

As one executive said, “When I was a young CEO, I didn’t know much about governance and undervalued it... Now I have completely changed my view. My best experiences are when it’s just me and the board talking, exchanging views... I really grow through these interactions.”

Panel members identified several opportunities for boards to further transform governance, noting that, for most boards, incremental change will not be sufficient to provide the necessary leadership for transformational change.

**Understanding stakeholders.** Few boards have formally identified and prioritized the wants and needs of the organization’s stakeholders today and for the future, panelists said. Even when health care organizations seek direct feedback from stakeholders, they may not probe sufficiently to gather meaningful and useful information. Hospitals, health systems and their boards don’t pay enough attention to the “voice of the customer,” said panel members, and simply bringing a patient onto the board is not enough.

**Competency-based selection.** Boards can expand much-needed clinical expertise beyond that provided by physician trustees by seeking out clinicians such as nurses or pharmacists for board service, panelists said. They also encouraged boards to recruit new trustees from...
other nonprofits with which hospitals and systems will partner to create tomorrow’s care systems. Knowledge and skills boards should seek for transformational governance include:

- expertise in building high-performing teams
- experience leading transformational change in other industries
- deep knowledge of new payment models and complex financial instruments
- experience in managing the health of patient populations

Panelists encouraged boards to adopt a broad view of competence that encompasses professional background, knowledge, skills, and personal capabilities and behaviors. Some of the personal capabilities identified include asking the right questions; being an active learner; thinking critically and strategically; and navigating through ambiguity and uncertainty.

Organizations with multiple boards also should consider whether competencies for system-level governance differ from those required for boards at regional, local or functional levels.

**Asking the right questions.** Effective boards will dig deeper on important issues to ask questions to support transformational change. Learning to spot issues, such as practice variation or over-or underuse of resources, that can trigger productive questions and using a framework to guide inquiry, such as the priorities of the National Strategy for Quality Improvement in Health Care, also can help boards evaluate how well their organizations are addressing important issues. Boards and executives will need to assess their current dashboards to determine whether “bifocal” metrics are needed to focus on success for today and for the future.

**Decreasing risk.** Taking an organizationwide view of risk can help boards evaluate the risks that come along with transformational change. Panelists suggested boards take the following actions to reduce risk:

- assign assessment of transformation-associated risk to the board’s audit and compliance committee
- establish board policies that require the organization’s corporate compliance officer to report regularly to the board
- ensure that the organization has a strong corporate compliance program

**Compensation.** Compensation can be used to drive transformational change at both executive and board levels. Linking executive incentive compensation to achieving transformational goals is one approach. However, panelists said that boards first should decide whether compensation is necessary and permissible.

“I am a proponent of compensating board members,” a system executive said. “I can’t see how volunteers will be able to do it, because another level of accountability will be required.”

**Assessing board performance and using results.** Self-evaluation should be an ongoing process conducted for the full board, board leaders, and individual trustees and as part of board and committee meetings, the panel said. It should lead to action plans for improvement, and outcomes of individual trustee assessment should be part of the reappointment process.

Panel members also suggested boards develop “governance metrics” to evaluate their own performance. The report includes three sample metrics developed by the AHA Center for Healthcare Governance to evaluate governance in all U.S. hospitals.

**Development and succession planning.** Lack of formal succession planning and development of organization executives are vulnerabilities to success in a transformed health care system. Panelists urged boards to begin now to identify and recruit for the competencies needed for transformational leadership and governance and to ensure competency development at executive, board and clinical leadership levels. Not having the right competencies in place for future success can prevent achievement of transformational goals.

**Important conversations.** Panelists and study participants cited important conversations boards and leaders must have to support transformational governance and leadership. Topics include:

- the risks associated with moving from volume- to value-based care delivery and payment
- the leadership and competencies needed to function effectively in a transformed health care system
- what it means to care for the health of a population
- what value means for each organization and the patients it serves
- the importance of rigorously assessing board performance. The panel’s report includes sample conversation starters that outline key issues for discussing these topics.

Panelists also identified how boards can impede the change process:

- cherishing local autonomy so highly that they can’t be objective about affiliations or partnerships
- deferring conversations about affiliation or consolidation because they may lead to disbanding the board
- not exercising the authority the board has to bring about change
- not truly evaluating whether the CEO and chair are up to the challenges of transformational change

**CONCLUSION**

The panel urged boards to use the report to reflect on their own performance and engage in the essential work of transforming governance practices to provide the leadership necessary to transform health care. Panel members also suggested that tools and resources be developed to help boards implement these recommendations. This will be the focus of work in the next phase of “Governance Practices in an Era of Health Care Transformation.” For more information about the report, visit www.americangovernance.com. T

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