

Governance Practices in an Era of Health Care Transformation

The American Hospital Association's



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Monograph Series

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Blue Ribbon Panel on Governance Practices in an Era of Health Care Transformation

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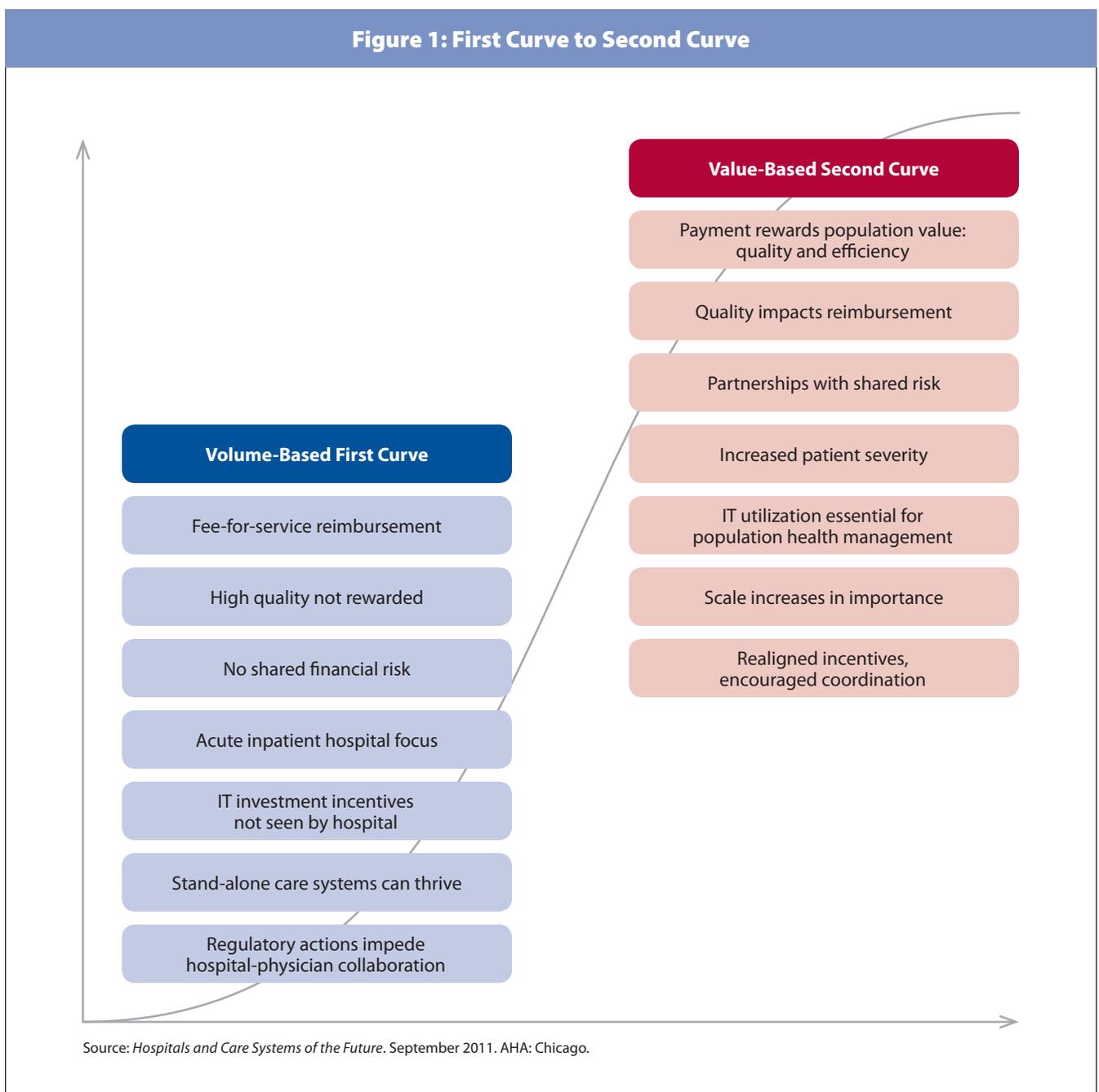
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Introduction and Overview

As boards navigate between today's fragmented, volume-focused health care system and a system that is more integrated and value-driven, there are plenty of issues that keep trustees up at night (see Figure 1).

Are the transformational changes now confronting health care organizations affecting the way boards govern?

In 2012 the AHA Center for Healthcare Governance, with generous support from Hospira, Inc., talked with two hospitals and two health care systems (see box



below) and convened a national panel of governance experts to explore “governance in the gap.” Thirty-seven board members, executives and clinical leaders from these organizations talked candidly about critical governance and leadership challenges and how boards are evolving to guide their hospitals and health systems through the profound changes now underway. Panel members distilled key learnings from the interviews and added perspective about what all boards can do to enhance their effectiveness in these transformative times.

This report shares perspectives about “governance on the ground” at specific organizations, with an eye toward identifying themes and views that will resonate with all hospitals, health systems and their boards.

The first section of the report, “Transforming Health Care Organizations”, discusses challenges facing hospital organizations and health systems during transformational change. Issues such as financial viability, improving quality and safety while cutting costs to create greater value, engaging and integrating physicians as partners in transformation, determining whether to stand alone or affiliate and the pace and complexity of change are key themes identified by organizations participating in the study. This section notes how these issues play out in both hospital and system settings.

The second section of the report, “Transforming Governance”, discusses how well-prepared today’s boards are to guide transformational change. It reviews where boards are focusing to strengthen governance and the valuable contributions boards have made to prepare and support their organizations through change. This section also identifies where additional opportunities exist to transform boards and their work. It addresses “important conversations” boards may not yet have had that can support effective governance and leadership during transformational times and identifies several ways boards can impede their organization’s progress.

This report also offers recommendations for what boards can do to enhance their own effectiveness and steps they can take to provide stronger leadership for organizational transformation (see box titled “Report Recommendations” on page 4).

More detail about governance in each of the organizations that participated in this study appears in the Appendix. Additional resources on topics addressed throughout the report also are included.

Two of the universal themes that emerged from this work are that:

- boards must transform the way they govern now to successfully lead their organizations through transformative times, and
- transformation requires frequent self-reflection and concerted action.

All health care boards are encouraged to use this report to reflect on their own challenges and practices and to begin transforming their governance today to meaningfully shape a value-driven care system that makes a difference for stakeholders. Participants in this study urged boards to be bold in their thinking and in their leadership. 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?

Study Participants*

- Beatrice Community Hospital and Health Center, Beatrice, Neb.
- Fairview Health Services, based in Minneapolis
- Presbyterian Healthcare Services, based in Albuquerque, N.M.
- Rutland Regional Medical Center, Rutland, Vt.

*The Appendix provides more detail on governance in each of these organizations.

Report Recommendations

The panel identified two sets of recommendations: the first addresses “Bold Board Moves” to transform governance practices; the second, examines practices for Board Leadership in Transforming Health Care. More details appear on pages 24-28.

Bold Board Moves

1. Identify competencies for transformational governance; assess and fill gaps.
2. Determine applicability of emerging governance models: expert, community-based and clinical enterprise boards.
3. Determine whether board member compensation is necessary and permissible.
4. 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.
5. Ensure board membership reflects communities served.
6. Adopt a high-performance culture.
7. Adopt governance best practices.
8. Evaluate performance at all levels of governance.

Board Leadership in Transforming Health Care

1. Understand and oversee continuous improvement in performance.
2. Have candid discussions about what transformation means for the organization.
3. Broaden compliance and enterprise risk management.
4. Strengthen board and organization capabilities to manage change.
5. Ensure development of patient and family engagement strategies.
6. Develop governance dashboards with “bifocal metrics” that assess today’s performance and shape future outcomes.
7. Encourage collaboration among providers to build the care systems of the future.
8. Actively oversee physician alignment/integration, engagement and leadership development strategies.
9. Use results of community health needs assessment to set strategy.
10. Assess the capabilities of executives to lead transformational change.
11. Create a compelling vision for the future.

Transforming Health Care Organizations



Section At-A-Glance

Financial stress, uncertainty and continued viability are common challenges, as all organizations participating in the study struggle to understand the “alchemy of doing more with less” while delivering greater value—higher quality at lower cost. Reducing costs, improving quality and safety, aligning and integrating with physicians to achieve common goals and the ability to work through complex change at accelerating speed are significant organizational challenges.

Financial Viability

Declining reimbursement and rising costs were front and center for all organizations in the study. Concerns surfaced about the impact of moving away from volume-based, fee-for-service payment to new payment models such as bundling payments to health care organizations and physicians and value-based purchasing, with payment linked to care quality and outcomes. As one trustee said, “If we face bundled payment, how will we divide the dollars so everyone is satisfied?” “We will receive less money but face higher expectations from the public,” said another. “How do we provide better care for less money? How do we find the efficiencies to make that work?”

As one hospital board member said “Today we are more concerned about finances and the bottom line than in the past—the board is driving the focus on this issue.”

Leaders of the health systems in the study raised additional concerns:

- What is the economic model that creates the right level of profit to enable reinvestment in our business?
- Can we perform well enough financially to continue to serve our communities?

- Will payment systems be reformed quickly enough so we can straddle today’s and tomorrow’s payment models without collapsing 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?”

Creating Value

Study organizations are concentrating on the nuts and bolts of creating better value for patients and other stakeholders by reducing costs and improving care quality. Areas of focus ranged from improving performance on basic quality metrics and lowering unit costs to system-wide efforts to move toward a “total cost of care model” and working with payers to get reimbursed for better performance. Challenges for trustees and other organization leaders include:

- Reducing variation in medical practice across inpatient and outpatient settings.
- Understanding what care costs and how to charge and get paid for it.
- Applying academic research to care delivery in communities to improve quality and safety and the overall patient care experience.
- Removing inefficiencies and waste to reduce care cost and improve outcomes.
- Understanding and minimizing risks associated with organizational strategies.
- Educating and engaging communities about the new ways of delivering care required to improve quality and lower costs.
- Improving patient, employee and physician satisfaction.
- Developing better quality scorecards and multi-disciplinary, provider-based peer review for quality performance.
- Understanding how to manage costs and outcomes for a population of patients.

- Identifying care and treatment that is and is not appropriate and necessary.
- Focusing on key strategies to implement initiatives quicker and with less risk.
- Tying performance and compensation to productivity and quality.
- Increasing integration and better managing cost and quality processes.

All boards in the study were most actively involved with helping their organizations improve quality and safety outcomes, operate more efficiently and reduce costs. Boards reported that engagement includes:

- education.
- ongoing monitoring of hospital initiatives.
- development and use of performance metrics.
- shaping strategy.
- participating in initiatives to directly address these issues.

Panel members noted that improving quality and safety drives down costs. Boards should encourage their organizations to avoid “reinventing the wheel” and learn from evidenced-based initiatives that already have improved quality and outcomes. They also encouraged hospitals to work together to reach these goals.

In working to optimize the cost/quality balance, panel members urged health care organizations and boards to understand the link between standardizing quality and safety and improving efficiency and what it takes to remove 20 to 40 percent of their cost structure in the process.

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? This is very dynamic and complex work. We’ve made good progress in committing commercial

payers and the Pioneer ACO model to start paying us for value. But 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—eliminating inappropriate utilization, incentivizing physicians to improve the health of a panel of patients, measuring performance differently, using shared savings and captive payment models. We’re not there yet.”

The real work to create value, he said, should not be driven by health care legislation, but by “what’s right for patients.”

“Paying attention to the political environment to a great degree can result in doing nothing. Health care organizations can’t do that. They have to focus on the mission and keep pushing to improve care for the community. The Supreme Court’s affirmation of the Accountable Care Act reaffirmed our strategic and leadership direction and made some of the doubters realize we’ve been doing the right work and there is no turning back.”

Physician Engagement and Integration

How to work with physicians to share risks and rewards of providing care under new payment and delivery models and building and engaging physician leaders are common challenges.

Both hospital organizations in the study are employing more physicians to retain or expand clinical expertise needed to deliver the care cost and quality their communities want. Participants from these organizations are concerned that the cost of attracting or retaining physicians may become prohibitive. As one board member said: “Our community expects high-quality, affordable health care and having physicians here to deliver it. The challenge will be to sustain this given current costs, declining reimbursement and having to employ physicians to keep them in the community.”

Both hospital organizations in the study are building “trusting relationships” between their boards and medical staffs because these are the groups that will work and govern together for the long-term.

According to one executive: “We are working on an approach where the medical staff drives quality performance, leads in developing the care delivery model and works with the governing board to determine what’s best for the community.” A board member noted, “Clinical integration is positioning us to improve our performance and is changing our culture.”

Yet, it’s sometimes one step forward and two steps back on the road to true alignment. A board member said, “We have doctors that don’t always talk positively about the hospital. We’ve had vivid conversations at the board table that identified the need to tell physicians that they are shaping the hospital’s image in the community. They can’t just say ‘the hospital is responsible’ because they *are* the hospital.”

The significant work hospitals and physicians are doing together to create greater value differs in scope and scale among study participants.

Hospital organizations are challenged to:

- recruit quality practitioners who understand the organization’s limitations and relationships with larger health care organizations.
- temper the wants and needs of physicians with what the community can afford.
- engage physicians in conversations about aligning with other organizations.
- explore governance structures for an employed medical staff.
- address physician leadership formation.
- engage physicians in care delivery as a “team sport.”
- create a common culture as part of hospital/physician integration.
- educate the community about the impact on cost of care when physicians become employees of the hospital.

- address the impact on hospital infrastructure, such as information and financial systems, of absorbing a growing number of physician practices.
- working within financial and market limitations to attract physicians in smaller towns and rural areas.

System leaders in the study also discussed:

- Bringing together faculty, employed and independent physicians to work together to advance clinical care.
- Applying research and practice from an academic medical center to improve care delivered in community settings.
- Engaging multiple hospitals and hundreds of physicians to transform culture through a patient-centric approach to care delivery.
- Physician and professional staff shortages and competing for them in a limited market.

Panel members discussed the wisdom of health care organizations acquiring physician practices in some markets as care moves out of the hospital setting. They said health care leaders and boards should determine how employing or exclusively contracting with physicians will fundamentally change the nature of the organizations they will be governing and be prepared to take on the political battles these changes entail. Boards need to ask how their hospitals and systems plan to organize both employed and independent physicians to support the work of transformation to a value-driven system of care and whether the organization is willing to give up some control to physicians to gain accountability and performance.

Panelists discussed the inherent tensions between hospitals and physicians both locked into the drive for survival and how these tensions play out in the organization and broader political arena. When conflicts arise, boards are sometimes in the middle, without the necessary perspective and expertise to sort out the issues.

To Be, or Not to Be...or To Be Something Else?

For smaller and critical access hospitals, concern about changes in reimbursement is prompting an “existential crisis”—can we continue to survive as we are or do we need to affiliate or merge with a larger organization in response to reimbursement changes?

Boards and leaders at Beatrice and Rutland have ongoing conversations about affiliation, as part of their strategic planning processes or through a board committee charged with considering this issue. Neither has yet decided to affiliate. According to one board member: “We will take direction from the community and then decide what’s best—if we can better our situation by affiliating we should; if not, then we shouldn’t.”

“Several hospitals in our state have already aligned, but we have not,” said one executive. “There is concern about what alignment might mean for certain services we now provide.” A trustee noted, “The board is thinking outside of the box and exploring alliances, but 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 member and trustee Rick de Filippi observed:

“As we consolidate health care in Massachusetts we recognize that health is determined by a variety of factors—about 20 percent is medical care and 80 percent relates to other factors, such as level of education, crime and economic status, which are influenced by organizations other than hospitals. To affect these factors, hospitals will need to partner with others who provide needed resources. But, if you are in a region where those resources are located an hour or more away, you’re in trouble; and you’re going to have a hard time thinking about a consolidated system of care.”

For many smaller health care organizations, panel members said, the question is not if they should affiliate, but when. Panelist and board member Katherine Keene noted:

“When is the responsible moment? How do we make the critical decision we need to make about being who we are or becoming part of something else while we still have value to add, rather than becoming financially desperate and then looking for partners?”

Seeking partners, said Nancy Formella, panelist and Executive Advisor to the Boards of the Dartmouth-Hitchcock Health System, is sometimes more about organizations staying the way they are than about facing the hard work of transforming themselves to better meet the health needs of their communities. Likewise, when a larger health system acquires a smaller hospital or system, it often remakes that organization in its own image.

Conversations that begin by considering merger, affiliation or organizational survival often change dramatically when board member-to-board member dialogue occurs. The focus shifts beyond an organizational context to zero in on the mission and what’s best for improving community health, what Keene called “taking the responsible moment to ask the most responsible question.”

Or questions. Panel member and governance consultant Barry S. Bader, urged health care boards and leaders to take the opportunity that transformational change offers to step back and ask fundamental questions, such as:

- What do we want to become?
- What do we need to do, not only this year, but in years to come to get there?
- 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 and significant?
- What value can community leadership contribute if we join a larger care system?

Boards and CEOs need tools to deal with these questions, Bader said, and boards have to own the process of determining what's important and which issues should be addressed by the board.

Panelists' views differed about whether boards are willing or able to engage with management on these questions. Panel member and trustee Alfred Purcell said:

“I come from the business world and my perspective is that health care manages and operates like a cottage industry—very conservative, won't change unless something dramatic happens...Unless you have a ferocious leader that is willing to take risks, boards won't do it. They will merely get along by going along unless there's impetus from the community or reimbursement alters substantially. Things will change incrementally, but they will not change radically.”

Other panel members suggested that the CEO can be a creative spark for generative governance—getting out of a hospital-centric mindset to challenge the board to evaluate what it would mean for the organization to move in a totally different direction. For example, one study CEO framed the question this way:

“Could we have more impact on the health of people in our state if we took a fundamentally different role? What if we sold our organization, raised a couple of billion dollars and deployed the money differently—would we have a greater impact? If we monetized the whole system, what would we do with that money? When we were first organized our mission was to build beds to care for patients, but now it is much more. Could we radically redeploy our capital and assets to better meet the mission, to create value instead of managing assets?”

Yet, such a spark can easily fizzle if a board doesn't have its own house in order and fails to seek out needed information for decision-making, ask tough questions and stay the course during the often intense, difficult and costly work needed to make significant change happen. These are governance practices CEOs should insist on, the panel said, because even a dynamic and aggressive CEO has to stand back and let the board lead.

What do we want to become?

What do we need to do, not only this year, but in years to come to get there?

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 and significant?

What value can community leadership contribute if we join a larger care system?

In transformational times, much of governance and leadership is less about having a blueprint for change and a clear understanding of risk and more about “the road less travelled.” However, now is the time for boards to get comfortable with ambiguity and steep learning curves and more deeply engage with what transformation means and its likely impact. Panelists urged boards to challenge their organizations to consider the costs of ‘business as usual’ and ask: “What happens if we do not change? If we don't, can we survive?” As one executive observed:

“There is a tendency for boards to accept business planning and strategic documents from management and understand them at a level that just skims the surface. It’s time for boards to have a more in-depth understanding of what we are undertaking to appreciate the risks. If we are on the precipice of massive changes in health care, boards need to be deeper into decision-making because we are embarking on uncharted waters and fundamental change.”

Change: Complexity and the Need for Speed

“The huge, huge elephant for all of these organizations is the pace and complexity of change,” said Keene. Boards and leaders from participating organizations shared these perspectives:

“We have goals such as clinical integration, organization-wide electronic medical record deployment, innovative care models—can we achieve all this fast enough with the constraints of the current environment? It’s survival of the fittest and we have the vision, strategic plan, board and leadership in place; but there are always the unpredictable issues and concerns about what we might be missing.”

“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?’”

Some study participants worried about staff satisfaction and burnout from high expectations for success across the many change initiatives their organizations are undertaking. Others believed the risks of fast-moving change can become too significant and that boards need to act as a “governor” on the pace of change.

Even leaders that were more optimistic about being on top of transformational changes questioned their organizations’ willingness to actually make the leaps required.

“I worry about ‘active inertia’—is our organization trapped because we have been doing some things the same way for years and it’s worked, but do the old ways lead us down the wrong path in the new ecosystem?” asked one community board member.

“I am concerned about the rule of unintended consequences—it will be very difficult for well-intentioned board members to make tough decisions, not really understanding all of the complex implications,” said another trustee. “Then, when people lose their jobs, the community will ask, ‘Why did the board let this happen?’ They won’t understand that the board did the best it could with a bad situation.”

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

Transforming Governance



Section At-A-Glance

When asked on a scale of one to 10, how well today's boards are prepared to partner with their executives to lead transformational change, panel members' responses clustered at the lower to middle of the range. With 1 being unprepared and 10 being well prepared, panel member ratings ranged from 3 to 8, with most at 4 or 5. Study organizations and panel members discussed current strengths—how governance practices are improving and adding value—and where opportunities for transforming governance still exist.

Current Strengths

Trustee selection

Boards in the study are more rigorous about selecting members:

- reviewing resumes and considering multiple candidates,
- identifying candidates with new backgrounds and skills and recruiting to fill gaps,
- striving for greater diversity to reflect the communities they serve,
- moving away from “who-do-you-know” to “who is the best fit” for board service.

“We no longer look for board members because they are friends, colleagues or donors,” said one hospital organization board member. “We are looking for the skills needed to govern effectively in this environment.”

Some boards are beginning to look beyond their community for board members and tapping outsiders with specific expertise in transformative change. Study boards are addressing this challenge in different ways. According to one system executive:

“We have brought in several board members from around the country to provide outside perspectives. One is the Medicaid director from another state. He is amazingly helpful to us in considering ways Medicaid could play out and sharing views from other markets. Another is a physician entrepreneur who has helped us think through how for-profit companies are changing the U.S. health care system.”

Board members with deep health care knowledge and the “capacity to teach and learn” can be valuable mentors during transformational times, said study executives, but many local board members don't have this capacity. One executive said, “I'm not sure the community-based model of governance is resilient enough, given the complexities and high stakes.”

The struggle to balance community engagement with the need for expertise to guide transformation troubled another system executive.

“More recently we have been looking at our system board composition in light of the skills we need to oversee the significant transformation we are undergoing. Do we have people on the board who have led complex transformations, who are capable in public policy/advocacy forums? We have been thinking about moving from a 21-member, community-based board to a board of eight or nine people skilled in driving change. A competitor of ours has gone to a paid, professional board structure, but community members feel disconnected from the system. We struggle with that. It's hard to get 21 people informed, knowledgeable and connected enough to the work. You can engage a smaller group at a different level, but then you still have to find a way to keep the community engaged. Advisory boards won't bring the kind of

leadership needed at the local level because people of that caliber don't want to be on an advisory board. 99

Education

Board members in the study are becoming better educated and view learning as an ongoing, rather than episodic, process. They understand that accountability requires getting up to speed on the issues. Some are asking their CEOs for resources and going outside of the board room to get them. “No more ‘ignorance is bliss’ and ‘we don’t know what we don’t know,’” is how one hospital executive put it.

Education is one way to build common cause. “We go to education programs with our physicians,” said one hospital board member. “It’s the best thing we’ve done collaboratively to build relationships, understand each other and move toward one goal.”

Board education also helps trustees encourage management to stretch and take risks. “Our board enables and encourages us to be bold,” said one system executive. “This comes from education that convinced the board that the status quo or incremental improvement will not work for the future.”

Reflecting on some of the challenges his organization has faced one executive noted, “We could have pulled in more outside experts and taken the board out to learn from others, rather than thinking we had to do it all on our own. These efforts might have stimulated meaningful input from the board so they stayed committed and didn’t drift.”

Panelists noted that the magnitude and pace of change facing boards in transformational times requires substantively strengthening board orientation, ongoing education and meeting preparation. Learning from other hospitals and systems, visits to facilities that provide long-term, behavioral or other types of care that are part of the organization’s expanding care system, Web-based courses and communication forums,

and off-site education programs are some ways to advance board learning. Tools for using trustee competencies to orient and mentor board members can be found in the Competency-Based Governance Report and Toolkit listed in the Resources section of this publication. For more on these resources, go to www.americangovernance.com.

How boards spend their time

One panel member observed that boards seem “more worried about and focused on doing a good job.” They realize that “having dinner, viewing a slide presentation and voting” does not constitute effective governance.

“The board is asking the tough questions, challenging management and physicians and more engaged in strategic planning—getting involved with a greater level of detailed information, analysis and sophistication,” said one hospital executive.

Another executive suggested, “The board asks challenging questions and raises issues that management has not always thought about—that’s how we know governance is working. Board members need to be less ‘nice’ and ask questions in meetings rather than outside of them so that everyone can benefit.”

Boards in the study are changing how they spend their time both in and outside of meetings. Dealing with routine decisions through consent agendas, tying board agenda topics to the organization’s strategic priorities and spending more time in discussion versus listening to reports are some ways boards are using meeting time more effectively. One study executive said:

“About 18 months ago we changed the format of our board meetings away from presentations and little conversation to focus on strategic dialogue, with materials sent in advance to prepare board members. We tee up the issues and allow 80 percent of meeting time for dialogue and questioning. This has deepened the board’s understanding and conversation

and has raised my confidence that the board better understands the issues. It seems a simple thing to change the meeting format, but it has had a profound effect on strengthening communication between the board and management.”

While most study participants said they needed to spend more time on governance, the Presbyterian Healthcare Services system board recently reduced the number of board meetings because they believe spending more time governing does not necessarily result in better governance. As one system board member explained:

“Going from six to four meetings each year means we have to be sharper, more focused, better prepared. Issues also need to be well-framed in advance, with time provided for us to review and think about them before the meeting. If these things aren’t in place, the board can’t do its best work. We also have webinars between meetings about issues we will be discussing and special meetings and calls—all part of our effort to simplify and streamline our focus in a very complex environment. This approach may seem counterintuitive, but I don’t feel we’re missing anything. Sometimes knowing more about more things doesn’t add value or enhance the quality of your understanding. It all flows from what you are trying to accomplish—many organizations never ask themselves that question.”

Panel members agreed that the key is how boards use their time together and urged them to review the structure and frequency of their meetings to achieve maximum impact. Rather than meeting for two to three hours a month or every other month, boards might accomplish more meeting less often but for a day or day and a half.

Strengthening committee work so the full board can focus more strategically also saves time and adds value

to governance. Committees are conducting more detailed review of issues and performance and some are teeing up questions for the full board, not as part of the consent agenda, but as a separate meeting agenda item.

Some boards are also bringing solutions from outside of health care into board discussion to stimulate and support innovation within their organizations. Others are upping their participation in political advocacy to ensure their hospitals and communities have a voice in shaping health care reform at local, state and national levels.

Technology, such as board portals, iPads, email and Web-based communication, is helping board members prepare for meetings and stay connected in between. However, panel members cautioned boards not to sacrifice effectiveness for efficiency. Board leaders must facilitate discussion at meetings about important issues members were briefed on between meetings or that are embedded in the consent agenda, they said, rather than simply asking if there are any questions and then calling for a vote.

Most Important Governance Contributions

Board members and executives in the study were asked what they believe are the most important contributions their boards have made to prepare their organizations for the significant changes now occurring in health care. Some of their responses:

“The board articulated our commitment to the mission and vision—to be the best health care system for America. This led us to focus on what it means to be the best and to realize we had an obligation to change the way we work to create more value. The board has stayed true to the vision, despite great resistance to change in some parts of the organization.”

“The board lifts us out of our ‘internal speak’ and causes us to think differently. They test our strategies against our mission and vision to help us focus on what’s most important. If we

can't explain things to them in ways they can understand then we sometimes need to step back, question the strategy and refine it. For example, helping the board better understand the total cost of care has forced us to gain greater clarity ourselves, be very crisp in our strategies and not assume the board knows what we know."

"Our board worked with us to make our metrics future-focused to prepare for transformation. We now have measures around our electronic medical record, business intelligence, patient-centered medical home, hospital at home, clinical quality and exceptional customer experience that look two to five years ahead."

"When I was a young CEO I didn't know much about governance and undervalued it. I saw boards as a necessary evil. Now I have completely changed my view. My best experiences are when it's just me and the board talking, exchanging views. They ask me what I'm worried about, whether I've considered various issues. I really grow through these interactions."

"We have been going to trustee education programs and bringing back key themes to focus on locally. Cost containment is one example. It was hard to keep up the drumbeat on financial improvement when we had high-margin performance, but we knew it was not whether changes were going to occur, but when. We worked with management to allocate resources to address these issues even during years of strong financial performance—that's the board's job."

"When our board considers issues we ask, 'Is this where the community wants us to go? Is this the right thing to do?' We are the accountability agent and ground the organization so it doesn't get too far away from our organization's mission. 99

The sidebar below includes additional board contributions and actions panelists identified to support transformational governance.

SIDEBAR

Important Board Contributions and Actions

- Being appropriately challenging, yet supportive
- Holding management accountable for quality and safety performance
- Governing in fiduciary, strategic and generative modes
- Being the convener of stakeholders
- Building a good relationship with physicians
- Tolerating risk and accepting failure while being goal-oriented
- Setting realistic expectations
- Fostering the board's own development and accountability to create an accountable organization

Opportunities for Transforming Governance

Panelists cautioned that incremental changes in governance will not be enough for most boards to provide the leadership needed for transformational change. Panelists offered the following opportunities for board development.

Understanding Stakeholders

In order to best meet the needs of those they serve, boards must first understand and prioritize who their organization's stakeholders are and who they are likely to be in the future.

"Very few board members have done this or have a shared sense of the answer to this question," said governance consultant and panel member James Orlikoff.

Focus groups, interviews and surveys are regularly used in other industries to understand and respond to customer needs. However, even when health care organizations talk with stakeholders, panel members said, they may not dig deep enough to uncover meaningful information.

Successfully transforming an organization's care system, said panelist and health system CEO Sandra Bruce, also involves educating the community about change and the impact the community should expect. Boards can play a key role in convening community conversations to get the word out.

Panelists observed that in general health care is very insular, compared with other sectors, and doesn't pay enough attention to the "voice of the customer," especially at the board level. And, simply putting a patient on the board, they noted, amounts to putting a toe in the water.

Selecting for Competency

Clinical expertise on boards will be even more critical as health care organizations expand their use of physician assistants, nurse practitioners and other clinicians in primary care and other settings. Panelists said boards need to go beyond seeking clinical expertise primarily from physician trustees and reach out to other clinicians such as nurses or pharmacists for board service. They suggested boards look for new trustees from social service organizations, human welfare agencies and other nonprofits that hospitals and systems will collaborate with more directly in developing the care systems of the future. Additional organization- and health care-related skills boards should tap for transformational governance include:

Organization Skills:

- expertise in building high-performing teams.
- involvement in entrepreneurial ventures.
- experience leading transformational change in other industries.
- expertise in identifying and managing risk.

- understanding of knowledge management—turning data into information and disseminating it in new ways, including use of social media.
- experience with crisis communication and management.

Health Care Skills:

- experience in improving quality and safety.
- deep knowledge of new payment models and complex financial instruments.
- experience in managing the health of patient groups or populations.
- expertise in engaging and communicating with patients and families to make decisions about their care.

Panel member and hospital CEO Kurt Barwis, offered this perspective:

“We recently had one of the senior executives from ESPN join our board. ESPN is a very performance-driven organization where executives are comfortable with ongoing change. From the minute he joined our board there was an immediate transformation in the way we interacted. He was always questioning, seeking clarification, bringing to our governance the perspective of a rapidly changing and evolving industry. It was such a positive change for our board.”

Panelists discussed the difficulty of bringing younger people onto boards. To become more diverse in any way, they said, boards need to be intentional about achieving that goal. Setting targets for adding younger members, looking for organizations that encourage their employees to get involved in community activities, and adding younger members to board committees first to orient them to board work are some ways to attract younger board members.

Few boards today recruit members using a broad view of competence that considers not only professional

background but also the knowledge, skills, personal capabilities and behaviors needed to effectively govern the organization today and into the future. Using this definition of competence, panel members discussed key personal capabilities and behaviors they believed board members will need to govern through transformation (see sidebar at right). Tools for using some of these competencies to select new board members can be found in the Competency-Based Governance Report and Toolkit listed in the Resources section of this publication. For more on these resources go to www.americangovernance.com.

Panelists also urged multi-board organizations to consider whether the competencies needed for system-level governance differ from those needed for boards at regional, local or functional levels, such as clinical enterprise governance.

Asking the Right Questions

Even if today's boards are asking more questions and are willing to challenge management, are they asking the right questions to support transformational thinking and action? What are the right questions, how can boards identify them and where should they surface in the board's work?

Panel members urged boards to add to their committees outside experts who can help board members dig deeper on important issues. Panel member Al Purcell suggested:

“People from the pharmaceutical and manufacturing industries, from the health sciences or engineering department at the local university; people who understand systems and the holistic approach, who really understand process improvement using methods such as LEAN or Six Sigma. People that are knowledgeable about mergers and acquisitions, bonds and banking. They know the right questions to ask.”

SIDEBAR

Competencies for Transformational Governance

- Asking the right questions
- Seeking information
- Managing complexity
- Being an active learner
- Thinking critically
- Thinking strategically
- Being courageous
- Viewing problems and solutions innovatively
- Willing to engage in fundamental versus incremental change
- Tolerating risk
- Being flexible and adaptable
- Participating in difficult conversations
- Acting collaboratively versus competitively
- Being a systems thinker
- Navigating through ambiguity and uncertainty
- Engaging in self-reflection
- Understanding the communities the organization serves

Being aware of “trigger issues” can prompt more productive board inquiry. Practice variation and over- or under-use of resources or admissions are examples of triggers that should stimulate questions from the board. Ensuring their organizations are looking at performance broadly and have systems and processes in place to evaluate costs and outcomes, not only for specific treatments or procedures but for entire episodes of care, is another way boards can stimulate transformational thinking.

Using a framework to guide inquiry can help boards assess how their organizations are addressing transformational issues. The Priorities of the National Strategy for Quality Improvement in Health Care (see sidebar below) provide one such framework.

Priorities of the National Strategy for Quality Improvement in Health Care

1. Making care safer by reducing harm in the delivery of care
2. Ensuring that each person and family are engaged as partners in their care
3. Promoting effective communication and coordination of care
4. Promoting the most effective prevention and treatment of the leading causes of mortality, starting with cardiovascular disease
5. Working with communities to promote wide use of best practices to enable healthy living
6. Making quality care more affordable for individuals, families, employers and governments by developing and spreading new health care delivery models

Source: U.S. Department of Health & Human Services

Reviewing the board's performance dashboards can uncover opportunities to evaluate whether current indicators focus on the type and level of performance needed for future success.

“Our boards have helped us a lot with our scorecards and measures and what it means to measure for different purposes, such as accountability or strategic focus,” said one study executive. “They push us to evolve our measures each year. They also help management realize when it's time to accelerate

improvement. For example, our board told us our mortality performance was not what the community expected and did not approve our target. They expected us to do better and to tell them how we were going to accomplish that.”

Panel members observed that health care organizations of every size are asking, “What do we need to be paying attention to? What are the measures of current and future success?” Boards need “bifocal metrics” that help them look at performance today and for the longer term.

Panel members encouraged boards to determine who within the board “owns” oversight of issues emerging on health care's transformational journey. For example, understanding the linkage between safety and high-reliability and how process improvement affects cost savings are responsibilities that could be added to the board Quality Committee charter. Holding CEOs accountable for achieving goals in these areas is another way boards can reinforce important issues.

Relentlessly focusing on the organization's mission also prompts boards to ask the right questions. “When boards are not focused on their mission and vision, they stray,” said panelist and board member John Combes, M.D. “Focusing on the organization's survival is not where boards can add the most value. The board's role is to ask, ‘How can we better meet the health needs of our community?’ That's what a health care organization's mission is all about.”

Understanding and Reducing Risk

Enterprise-wide risk management is a discipline for comprehensively identifying and decreasing risk. Health care boards should use this approach, panelists said, to rigorously assess the risks associated with transformational change. Efforts boards can undertake include:

- tasking the Audit and Compliance Committee to assess transformation risks.
- developing board policies that require regular reports from the organization's Corporate Compliance Officer.

- ensuring their organizations have a strong corporate compliance program.
- adding risk assessment into board committee work.

“We recently assigned various organizational risks to specific board committees, depending on the nature of the risk,” said one system executive. “Committees then roll up their assessments through the board Audit and Compliance Committee to the full board. We just started this process in the past year to both disseminate risk oversight and monitor it across board functions.”

“Our hospital compliance officer comes to more board meetings and reminds the board about their fiduciary duty of due diligence so we understand the decisions we are making,” a hospital board member said. “He talked about how boards have gotten into trouble for ‘rubber-stamping’ decisions. The board now uses a risk grid that profiles the impact on the hospital of decisions the board makes.”

“We have execution risk,” a system executive said, “but we do a good job of narrowing down the work around our five strategic initiatives and staying focused on them.”

Compensation

Opportunities for using compensation to drive transformational change exist at both the executive and board level.

Boards need to tie executive incentive compensation to meeting transformation goals, which often take longer than 12 months to achieve, panel members said. Successfully re-branding the organization, becoming a trusted partner in the community, concluding an alliance with another health care provider or measurably improving the health of a community or group of patients are examples of goals that require different approaches to performance measurement and compensation.

In order to achieve transformational governance, panelists said, boards must determine whether

compensation is necessary and permissible to support the increased commitments required.

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

Panel members agreed that the burdens on governance that transformation will bring include far greater time commitments for board members, the need for “nontraditional” governance competencies and experience that boards may have to go outside of their community to acquire and a higher level of accountability for their actions.

Evaluating Board Performance and Using Results.

Question: What is the one measure that you would take most seriously in determining whether your board is effective?

Answer: Understanding the quality of a board’s self-evaluation process would be a good starting point for knowing whether a board is doing well.

Panel members talked about the value of boards developing “governance metrics” to assess their own performance. The AHA Center for Healthcare Governance has developed three metrics to evaluate governance in all U.S. hospitals (see sidebar on page 19.)

Panelists also encouraged boards to view self-evaluation as an ongoing process. It begins with sharing performance expectations with candidates during board recruitment and continues at multiple levels of board work—regular full board assessment, board and committee meeting evaluation and board leader and individual board member evaluation. All forms of governance evaluation should include action plans for improvement, panel members said, and results of board member assessment should be used to reappointment board members for additional terms of service.

Sample Governance Metrics

By 2017, 75 percent of the boards of America's hospitals will achieve the following:

- On average, the majority of board meeting time is spent in active discussion, deliberation and debate about the strategic priorities of the organization (rather than listening to briefings, presentations and reports).
- The board uses knowledge/skill and personal capability competencies to select and evaluate board members.
- The board's composition reflects the diversity of the community/stakeholders served by the organization.

All board members should go through the individual evaluation process, even those that are high-performers, panel members said. Outside experts or board coaches can be used to tee-up discussions about performance. One-on-one conversations about board member performance conducted by board officers or the chair of the Governance Committee also can be effective if board leaders are skilled at providing constructive feedback. Panel members agreed the ability to effectively provide performance feedback should be a required competency for board leaders.

If the hard conversations about board performance aren't happening, then similar conversations are unlikely to happen throughout the organization, panelists said. Boards have to lead by example. Tools for using competencies as part of a peer-based approach to individual board member assessment can be found in the Competency-Based Governance Toolkit listed in the Resources section of this publication. For more on these resources, go to www.americangovernance.com.

Panelist John Combes, M.D., said: "Before we try to transform the whole health care system, we have to have boards that are really functioning at a very high level—cultures that are team- and accountability-focused, willing to self-examine, and committed to continuous improvement and reducing variation in governance practices."

The panel also encouraged boards to assess how they make their decisions and to reflect on their decisions at regular intervals. Techniques boards can explore for making decisions include using a 'devil's advocate' process to frame arguments for and against proposed solutions and engaging in inquiry-oriented versus advocacy-oriented decision making. The U.S. Army's process for "after action review" is another method for evaluating decisions.

Development and Succession Planning

Board and leadership development and succession planning were not frequently discussed by the organizations interviewed. Recent studies also suggest that succession planning for boards and executive leaders in hospitals and systems is not as routine or robust as it could be. Panelists identified this issue as a vulnerability to success in a transformed health care system and urged boards to identify the competencies their organizations currently have for transformational leadership and governance and begin now to recruit for and develop those needed at executive, board and clinical leadership levels. Not conducting these practices, they said, could result in failure to reach transformational goals. Tools for using competencies for board leadership development and succession planning can be found in the Competency-Based Governance Toolkit listed in the Resources section of this publication. For more on this resource, visit www.americangovernance.com.

Important Conversations

Panel members and study participants identified a number of important conversations boards and leaders may have not yet had that can support effective governance and leadership during transformation. Issues and questions to explore are included in the sample conversation summaries below.

The Impact of Transformation. “Our board, executives and clinical leaders recognize that transformation means fundamental, not incremental, change. As a leadership group we will explore what transformation means for our organization, assess how well-prepared for and committed we are to this level of change and understand how it can alter who and what we are. As we examine what business we are in today, and consider options and models for the future, including collaboration and affiliation with other hospitals and systems, we will be open to the possibility that we may no longer exist in the same form we do today. The way forward is to focus on our mission and ask, ‘How can we best use our resources to meet the health needs of the communities we serve?’”

Risk. “As a board we will educate ourselves about issues our organization is facing in the transformation to value-driven health care. We will ensure we have organization-wide systems in place to identify and address ongoing risks associated with transformational change. As a board we will set realistic expectations and tolerate a level of risk and failure as part of the change process as we collaborate with our executives and clinical leaders to achieve our goals. We expect management to keep us informed—of both good news and bad—so that we can work through the process of change together and ensure that whatever we promise, we deliver.”

Competencies. “Transformation requires a different type of leadership and new competencies. We need to understand the kind of leadership health care transformation demands and determine how that affects our organization’s senior executive and clinical leadership selection, development, compensation, evaluation, retention, succession and transition planning. We also need to determine how it affects these same practices for the board.”

Population Health. “‘Population health’ means different things to different people. What does population health mean to us? What do the results of community health needs assessments tell us about the health status of those we serve? What does it take to care for and improve the health of a group of patients or entire communities? What skills and resources do we have and not have to accomplish this? What other organizations should we be working with to have a positive impact? What should our organization’s role be?”

Value. “Improving quality and safety while reducing costs is the heart of value-driven health care. We need to aggressively pursue these goals. How many patients have we hurt this week or this month? Are our patients healthier a year or two years after we have cared for them? How do we know? What do we need to do today to improve our performance organization-wide? How can we apply what others have learned to make our care quality and safety better?”

Assessing Performance. “Performance evaluation is one of the most important ways boards can model and participate in continuous improvement. Our board will assess its performance in many ways, including full board, board meeting, board leader and board member performance assessment. We will use the results of performance evaluation to reappoint board members for additional terms of service. We will ask tough questions of ourselves, such as: Are we the best board we can be? Do we have the right board leadership? Do we have the

right board members? How do we compare to the very best boards and how can we quickly elevate all aspects of our governance to best practices? What would the right board for the future of our organization look and act like? How is that board different from our current board? What do we need to do today to become the best board for our organization?”

Panelists also shared their views about where boards are at greatest risk of holding their organizations back in the transformation process:

- Cherishing their communities, traditions and local autonomy so highly that they can't objectively look at partnerships and relationships with other organizations.
- Deferring conversations or decisions about affiliation or consolidation with others because they may lead to disbanding the board.
- Not exercising the power and authority the board has to bring about change.
- Engaging in incrementalism; going only “a degree outside of their comfort zone;” always trying to get back to where the organization used to be.
- Failing to speak out and ask fundamental questions.
- Failing to support management in contentious situations.
- Having board leaders who shut down or do not encourage discussion of important issues.
- Not truly evaluating whether the organization's CEO and board chair are up to the challenges of transformational change.

Are we the best board we can be?

Do we have the right board leadership?

Do we have the right board members?

How do we compare to the very best boards and how can we quickly elevate all aspects of our governance to best practices?

What would the right board for the future of our organization look and act like?

How is that board different from our current board?

What do we need to do today to become the best board for our organization?

Recommendations and Conclusion

The panel offered two sets of recommendations: bold moves for transforming board work; and actions boards can take to provide leadership in transforming health care.

Bold Board Moves

It is urgent that boards take the following actions:

1. **Board Competencies.** Identify the competencies needed for transformational governance and rigorously assess existing board(s) to surface and fill competency gaps. Add board members from outside of the community where needed. In multi-board organizations, the competencies required for system-level governance may differ from those for boards at regional, local or functional levels.
2. **Governance Models.** Examine emerging governance models, such as expert, community-based and clinical enterprise board models, and determine whether, and in multiple-board organizations at what level of governance, these models are applicable.
3. **Compensation.** To achieve transformational governance, determine whether board member compensation will be necessary and permissible.
4. **Community Leadership.** Health care systems with multiple boards and individual health care organizations joining these larger systems should consider a broader role for community leaders in the health care enterprise.
5. **Trustee Characteristics.** Assess board member age, gender, ethnicity and other characteristics to ensure boards reflect the communities their health care organizations serve.
6. **Board Culture.** Adopt a high-performance culture: Don't shy away from edgy conversations. Ask the right questions. Disagree agreeably. Challenge the status quo. Leave the comfort zone. Be willing to make tough decisions in an ambiguous environment. Adopt a generative approach to governance that helps shape the identity, purpose and future of the organization.
7. **Best Practices.** Adopt governance best practices: Engage in intensive and continuous board education. Invest in competency-based board leadership development and succession planning. Define and own the governance agenda—decide which issues should be addressed by the board. Develop and monitor “governance metrics” to assess board performance in a transformed environment.
8. **Evaluation.** Evaluate performance using self-reflection and peer review at all levels of governance. Share best practices. Foster board accountability.

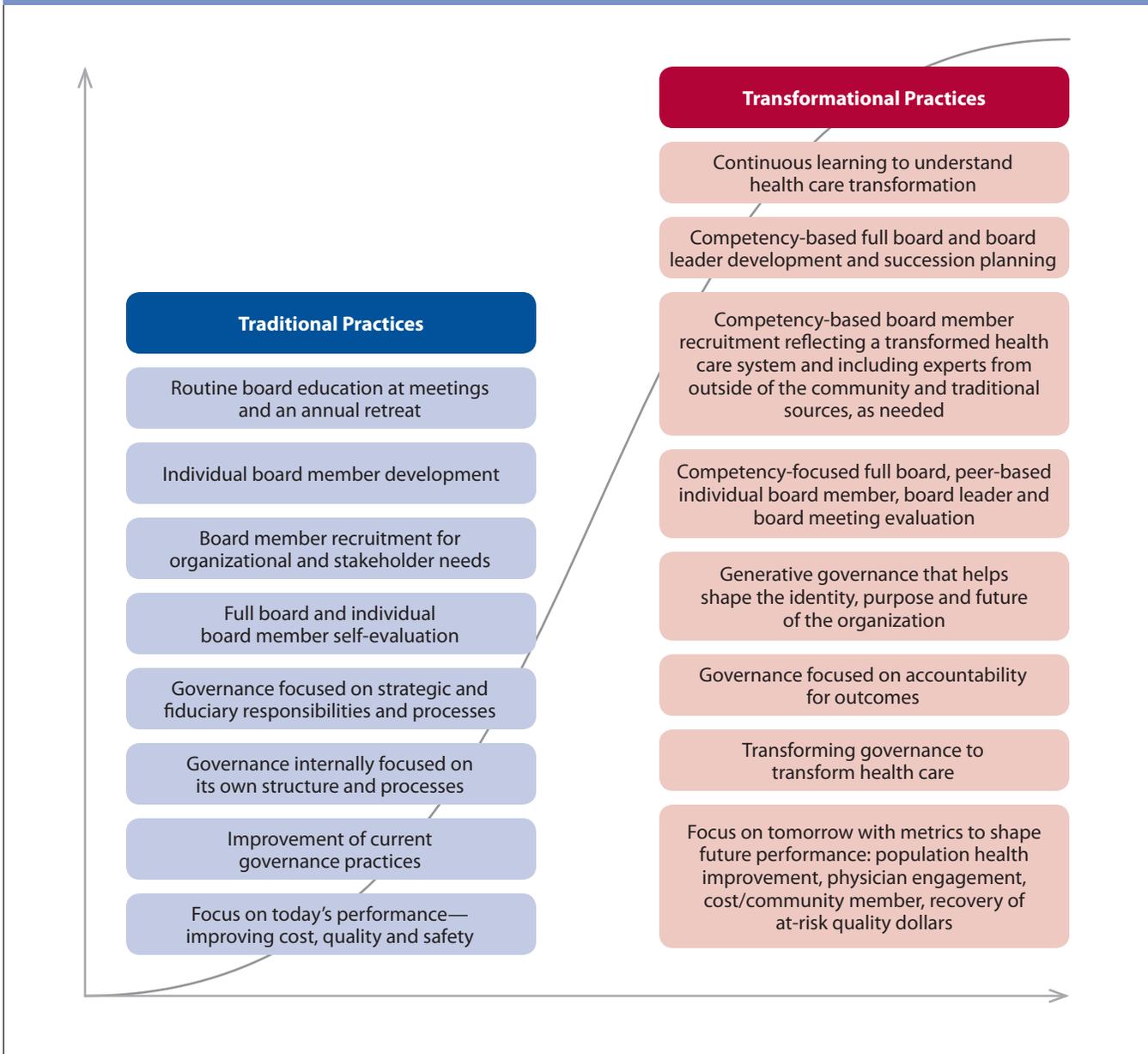
Figure 2 on page 23 illustrates traditional governance practices boards already should be implementing in today's volume-based environment leading to practices boards should adopt to transform governance for value-based health care.

Board Leadership in Transforming Healthcare

Engaging in sharply focused deliberation boards must:

1. **Focus on the basics.** Be sure the basics are strong. Understand and oversee continuous improvement of quality, safety and financial performance. Adopt evidence-based approaches to improving quality and safety. Participate in opportunities to test new payment models such as bundling or capitation.
2. **Have candid discussions.** Have deep and candid discussions with executives and clinical leaders and reach resolution about: a.) what transformation means for the organization and b.) how hospital and system assets can be best used in the future to meet community health needs.
3. **Assess risk.** Broaden compliance and enterprise risk management processes to identify ongoing risks of transformational change. Actively monitor these risks and factor them into governance practices and decision making.
4. **Strengthen change management.** Strengthen the board's and organization's capability to manage change by acquiring expertise and expanding education at all levels.
5. **Ensure patient engagement.** Ensure development of strategies for patient and family engagement in decisions about their care.
6. **Develop metrics.** Develop governance dashboards with “bifocal metrics” that assess the business of health care today and shape performance for the future.
7. **Foster collaboration.** Encourage their hospitals and health systems to collaborate with other providers, health care organizations and community organizations to build the care systems of the future.
8. **Oversee physician engagement.** Actively oversee development of physician alignment/integration,

Figure 2: Transforming Governance for Value-Based Health Care



engagement and leadership development strategies. Include clinicians as partners in organization-wide governance and leadership.

- 9. Focus on the community.** Use results of community health needs assessments to set strategy and to stay mission-focused. Always ask: “Is this the best way to improve the health of the communities we serve?”
- 10. Assess executive capabilities.** Assess the capabilities of the CEO and senior executives to lead transformational change. Implement succession and transition planning as needed.

- 11. Create vision.** Create a compelling vision for the future derived from inspiration, not fear.

Boards need new tools and resources to transform governance. Panelists encouraged hospitals, health systems, health care associations, governance researchers and educators to develop resources and share learning to support boards through change. If boards expect their organizations to undergo transformation, panelists said, they must demand the same of themselves and lead by example.

Appendix: Summaries of Study Organization Interviews

Beatrice Community Hospital and Health Center

Profile

A 25-bed critical access hospital and health center with a 23-physician medical staff located in Beatrice, Neb., serving southeastern Nebraska and northern Kansas.

Organizational Challenges

- The uncertain future for critical access hospitals and their reimbursement
- How the hospital will fit into the larger system of care in the region
- Ongoing clinical integration of physicians into the hospital structure
- Becoming more efficient; doing more with less
- Improving patient satisfaction

Changes in Governance

The board:

- added a quality committee
- is better educated on physician integration, quality and reimbursement
- strengthened and works through its committee structure
- focused on building a culture to improve patient service and satisfaction
- raises issues management has not always thought about
- is more strategic and future-focused

In the future, the board needs to:

- have more discussions about whether to affiliate with a larger organization
- oversee development of new governance structures for an organization that is physician-led and professionally managed
- take a systematic approach to performance excellence
- be more involved in quality and clinical integration

Trustee/Board Competencies

- The board may have to look outside the community to add new skills
- The board seeks trustees who are younger and who have expertise in technology, quality, behavioral sciences, human resources, dispute resolution, systems thinking, health care work flow, strategic thinking and experience working in or running a larger organization

Valuable Board Contributions

- Listens carefully to the community and represents their needs/interests
- Makes tough decisions and backs them up in the community
- Is addressing quality, tracking and improving performance, backing up decisions with resources to implement them
- Is willing to take roads less travelled
- Understands that what the hospital must do to remain strong and independent also will make it a valued partner if the hospital affiliates with a larger organization
- Hired the right CEO to lead/guide the hospital into the future
- Built trust and better relationships with physicians

Areas for Further Strategic and Board Advancement

- How to involve physicians in governance once they are all employed
- Whether Beatrice should affiliate or remain independent
- CEO and board leader succession planning

Advice for Boards

- Embrace change because it's here
- Don't be afraid to ask questions; have edgy conversations
- Let community need drive decision making
- Get educated; prepare for board meetings
- Extend the time horizon for strategic planning; consider "what if" scenarios
- Understand providers must work together to create a network of needed care—hospitals can't do it alone

Fairview Health Services

Profile

In partnership with the University of Minnesota, Fairview is a nonprofit, academic health system based in Minneapolis, with seven hospitals including the University of Minnesota Medical Center, and more than 40 primary care clinics. Fairview provides a wide range of acute and chronic care, specialty care and senior services. The system has more than 700 employed physicians, more than 700 affiliated academic physicians and works with a network of 630 independent physicians.

Organizational Challenges

- Reimbursement reductions and how to take costs out of the system
- Redefining how to deliver care to create value
- The complexity of the enterprise and the business model to sustain it
- Blending an academic health system and a community health network
- Balancing the old and new worlds
- Understanding our changing risk profile and how that affects our organization

Changes in Governance

- Greater system board focus on service lines, quality of care, patient experience
- System board taking a more strategic view, driving revenue to support investment in our business
- Re-examining system board composition
- Learning how much board members need to be involved and the questions they need to be asking management
- Using a board portal to prepare for meetings
- More board engagement systemwide
- More collaboration and transparency at the system board level
- More dialogue at system board meetings and use of executive sessions
- System board more focused on risk assessment

In the future, boards will:

- have needed competencies that balance expertise and community focus
- stay connected to their work between board meetings
- participate in governance models that will evolve for a combined health care delivery and financing system with an integrated health plan
- better understand the line between governance and management
- be better educated, even more connected and synergistic with management
- have comfort that the organization has a better economic model, better execution and is positioned to take the next big step
- be a source of active learning and discovery

Trustee/Board Competencies

Boards need members who:

- can think strategically and understand strategic partnerships and networks
- understand and manage complexity
- are comfortable with uncertainty and ambiguity
- have led complex organizations in challenging times
- have health care business expertise and know how health care works
- have experience in population health
- have expertise in health care quality, cost and experience of care
- want to engage and ask questions
- have a passion for caring for the community
- have the time for the in-depth learning needed to be effective
- can assess and manage risk
- understand innovation
- understand how fast an organization can and should change

Valuable Board Contributions

The system board has:

- focused hard on quality, safety and stakeholder satisfaction
- articulated our commitment to the mission and vision, which led Fairview to realize it had an obligation to change the way it worked to create more value
- set the expectation that successes achieved in one setting be diffused more quickly throughout the system
- challenged the system's strategies and provided support to advance them
- continued to press for accountability

Areas for Further Strategic and Board Advancement

- Developing a constructive tension between management and the board
- Reconciling the academic and community care network business models
- The structure of governance
- Determining what we want to be—a hospital system, a blending of clinics and hospitals, a blend of community providers and education/research, insurance provider, accountable care organization
- Determining whether we want to lead in health care transformation—do we understand the risks and will we stick by our vision
- More board education on industry issues, trends, best practices, successes
- Gaining a better understanding of Fairview's relationship with the University of Minnesota and UM physicians
- Understanding performance across the system; what variation, over- and under-performance actually mean

Advice for Boards and Executives

- Understand the drivers of reform, the pace at which the organization should transform, the risks and unintended consequences of the journey
- Don't be insular; learn from your customers
- Get the board involved; help them understand what's going on elsewhere in health care delivery and innovation
- Be very clear about the vision, goals and strategies
- Probe, question and challenge—ask questions management has not thought of
- Deeply engage as partners in transformation
- Focus on relationships with physicians
- Create system-wide relationships and incentives to reach common goals
- Always ask, "What's right for the patient?"

Presbyterian Healthcare Services (PHS)

Profile

A not-for-profit, statewide health system, based in Albuquerque, N. M., with eight hospitals, a health plan, 27 clinics and more than 500 employed physicians and practitioners. PHS also works with independent physicians who provide care at PHS community hospitals.

Organizational/Board Challenges

- Reimbursement reductions
- Providing access to affordable care
- Caring for a diverse population with diverse needs and high poverty levels
- The pace and complexity of change
- Transforming the culture with physicians
- Competing for experienced professional staff in a limited market
- Improving quality and patient satisfaction

Changes in Governance

Today:

- boards have helped PHS evolve scorecards and performance metrics
- system board has members with deep health care knowledge and expertise
- boards focus on how to accelerate organizational performance
- community boards are leading the way on setting community health priorities
- boards are focusing on continuous governance improvement
- boards are asking tough questions, challenging, drilling down into performance in appropriate ways
- the system board is future-focused, understands the need for change, has made decisions that have put PHS where it is today
- the system board and management are working together to lead more proactively and for the long term
- the system board supports bold initiatives, sets the bar high; expects the organization to correct deficiencies

In the future:

- boards will better align and integrate the work of committees
- the system board will be more regionally and nationally focused; spend more time on the bigger health care picture
- boards will be more generative in their governance
- boards will focus more on wellness and collaborating with employers, the Chamber of Commerce and others
- boards will be very system-focused
- boards will engage in ongoing dialogue between meetings
- system board will set strategy, take action, make tough decisions
- community boards will challenge more, bring diverse skills to drive decisions
- boards will operate differently to support an evolving organization

Trustee/Board Competencies

Boards need members with:

- Ability to manage complexity and uncertainty
- Ability to think strategically, ask tough questions
- Experience with health care delivery and performance
- Experience in change management
- Experience with transformation in other industries; with disruptive change
- People who can balance engagement and insight
- People who cross vocations, industries, and cultures
- Individuals who can function effectively as a group
- Creative thinkers
- Continuous learners

Valuable Board Contributions

- Approval and support for an integrated financial and clinical information system
- Setting high expectations and defining “True North”
- Setting fiduciary, strategic and generative performance goals
- Pushing hard for quality, transparency and more accurate scorecards
- Steadfast support for PHS to risk new things

Areas for Further Strategic and Board Advancement

- Determining the right cost-quality balance to achieve high-quality/cost-effective care and to optimize the patient care experience
- Determining if PHS has the scale, capabilities to get through transformation
- Certification or advanced preparation for board service
- Evaluating board structure, composition, support in a multiple-board organization
- Management and board succession planning

Advice for Boards

- Get educated
- Be bold
- Break down barriers to improvement and effect change
- Ensure board members have diverse expertise, perspectives, ability to manage change and see the big picture
- Don't be afraid to change governance in order to improve it
- Within multiple-board organizations, boards at all levels need to understand their responsibilities and not micromanage or duplicate the work of other boards
- Conduct a brutally honest assessment of reform and view the organization as having huge vulnerabilities that must be intentionally and assertively addressed

Rutland Regional Medical Center

Profile

A 188-bed, not-for-profit community hospital, RRMCC is located in Rutland, Vt., serving Rutland County, portions of southern and central Vermont and communities in eastern New York State. With a medical staff of 234 physicians, the hospital employs 207 physicians and provides preventive, diagnostic, acute and rehabilitative services.

Organizational Challenges

- Economically declining area, outmigration of businesses, shrinking population
- Emerging impact of reform under the Vermont Blueprint for Health
- Retaining physicians in the community through large-scale employment, integrating the hospital and physicians into one culture, physician leadership formation and engagement
- Improving performance in quality, patient satisfaction and cost of care

Changes in Governance

Today the board:

- selects trustees for skills needed to govern effectively in the current environment
- uses community needs to drive strategic planning and CEO performance review
- spends more board meeting time discussing cost and quality issues
- is more educated and prepared for meetings; questions, challenges management
- is more focused on compliance and risk assessment

In the future, the board will:

- need to advocate for creating greater value in health care delivery and building deeper relationships with physicians to do this
- hold more executive sessions; have better measurements of performance
- make decisions about the future of the organization, including affiliation, different scope of services, how to sustain care delivery in the community
- focus on managing the health of a population and moving away from fee-for-service payment

Trustee/Board Competencies

The board looks for people who are:

- team players
- willing to challenge the status quo
- decision-makers
- strategic and critical thinkers
- able to reach out to the community
- interested in participating in political advocacy

Valuable Board Contributions

The board:

- has become more strategic
- uses community health survey results to better understand community needs
- is driving financial improvements and lowering costs while maintaining quality
- is emphasizing physician engagement and employment

Areas for Further Strategic and Board Advancement

The board needs to:

- provide more support for the CEO in the legislative arena
- ensure true alignment with physicians in and outside of the hospital
- ensure physicians lead improving care quality and standardizing care
- continue discussions about whether the hospital stays independent or affiliates

Advice for Boards

- Be more tuned into the legislative arena locally and nationally
- Collaborate with other institutions to develop common solutions to problems
- Get educated about reform and the business of care delivery and payment
- Be attuned to the local environment; improve care quality, safety and efficiency
- Understand the current system of care is not sustainable
- Add younger community leaders to the board

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