

Trustee Workbook 4

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Transformation and the Governance Agenda: Keeping Your Board on Track

Now that the Affordable Care Act has been upheld, it appears that the American health care delivery system is about to embark on unprecedented change.

This transition encompasses a staggering number of issues: integration and physician alignment; significant reduction in Medicare reimbursement; heightened emphasis on quality and safety; the need to evaluate and pursue partnership options, such as mergers and affiliations with health care providers along the continuum of care; defining and delivering accountable care; and ultimately the complete

transformation of an acute care-based system to systems of care that promote and encourage population health.

To make matters even more complex, hospitals and systems will need to evaluate each of these issues within the context of their existing strengths and weaknesses, financial performance, ability to control and reduce costs, existing programs and integration initiatives, access to capital, current quality and safety performance and, of course, their local market. Simply put, when a local health care market begins to change rapidly in these areas, the urgency and pace of change accelerates, often placing organizations in a reactionary mode that makes everything move faster.

Hospital and health system executives and clinical leaders have no shortage of work and pressing issues to keep them awake at night. However, the current scope and pace of

change heightens the need for all health care leaders to remain informed and to learn continuously. In many cases, the learning curve will be steep and time-consuming as organizations increasingly find themselves operating and governing two businesses: the existing disease-focused, fee-for-service model (which encourages utilization of care and services) and a model focused on wellness and disease prevention (which ultimately rewards health as opposed to treatment and procedures).

Among all of these priorities and activities that are routinely part of the transformation dialogue, one issue is conspicuously absent: governance.

It's no secret that board time is an important and limited asset. Yet, while many CEOs around the country value governance, one has to wonder what its priority will be in relation to other compelling, game-changing issues that are on the minds of health

care executives and clinical leaders and that will surely occupy the board agenda.

THE TRIPLE THREAT

When considering the significant issues that exist in health care, let's turn to a sports analogy commonly used to describe an athlete who presents a substantial challenge to the opposing teams: the "triple threat."

Clearly, the most obvious health care challenge is the changing delivery system. It is nothing less than profound. It encompasses everything about health care: how care is provided, how performance is defined and measured, and how organizations are paid for the care and services they deliver. In many ways, these changes are nothing less than a complete reversal from the current delivery system.

Accountable care, which includes the new Medicare accountable care organization shared savings program, is closely related. This challenge presents unique business, operational, legal and governance issues as diffuse, independent providers and suppliers of health care services try to coalesce

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into organizations that attempt to coordinate care for large populations. It remains unclear not only whether the ACO model will work, but whether this collaborative model is sustainable, and whether these organizations will have to evolve to some form of fully integrated model as opposed to loose coalitions. Last, but not least, is the challenge of governance.

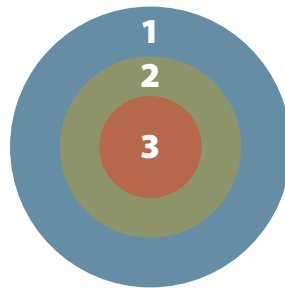
Why governance?

In some respects, corporate governance, perhaps most especially in health care, presents the least obvious challenge of the three for the very reason that it appears relatively benign, especially compared with the more obvious transformative issues discussed above. How could the board be an obstacle to transformative change in health care?

The truth is that corporate governance, like health care itself, is in a state of historic transformation. Boards on the leading edge of transformational governance are becoming smaller, more agile decision-making groups and are spending more time with executive and clinical leaders in strategic dialogue rather than following more traditional “report and react” agendas. Boards also are working more capably through stronger, more focused committees and devoting significant time inside and outside the boardroom to educate themselves to ask the tough questions sound leadership demands. Accountable boards also are modeling the need for continuous improvement by more frequently evaluating their own performance through full board self-assessments, individual assessments, and board and committee meeting evaluations.

This transformation in governance is focused on enabling boards to be stronger strategic partners who can team up with executive and clinical leaders to guide their health care organizations through the transformative changes ahead. For many boards, this work to strengthen governance still is under way. Therefore, if boards are left unattended and fail to transform themselves, a lapse or

Health Care’s “Triple Threat”



1. Fundamental shift in health care delivery and payment

2. Accountable care

3. Corporate governance

breakdown in governance could derail even the best strategies for health care reform.

Questions for Discussion

1. Where does governance fit in the list of priorities our board considers when it discusses the transformational changes now under way in health care?

2. What are the key governance strengths our board can leverage to confront the changes now facing our organization?

3. What governance weaknesses are most likely to undermine our board’s effectiveness?

4. Based on a scale of 1 to 10, with 1 being unprepared, 5 being moderately prepared and 10 being well-prepared, how would we rate the preparedness of our board to partner effectively with our executives and clinical leaders to guide our organization through the challenges of transformation and reform? Explain how you arrived at your rating.

IS YOUR BOARD’S HOUSE IN ORDER?

To prepare for the challenges ahead, boards first should conduct an internal risk assessment to make certain that their governance infrastructure is sound and that the board is, and likely will remain, stable for the foreseeable future. Here are some key areas that governing boards should evaluate:

1. Board turnover and attrition. An obvious place to start is to evaluate board membership to project and anticipate turnover. Evaluating when

board member terms will expire is a first step, especially for boards with established term limits. It’s also helpful to evaluate the age and length of service of each director to gain additional insight about when turnover is likely to occur. Knowing when built-in turnover is scheduled can help boards become more intentional about the type of individuals they seek to fill a vacancy.

Some boards also are experimenting with longer terms of service beyond the traditional three consecutive three-year terms, supported by regular individual board member performance assessment and ongoing development. This approach recognizes that as long as board members continue to grow and develop in their roles, their ongoing performance, their commitment and the knowledge they could contribute to the board outweigh the need for term limits.

2. Board recruitment. This is another important consideration. Many hospital and system boards are having difficulty finding new and younger directors who have the time and interest to devote to board service. Others seek new members solely to fill available slots, rather than to meet specifically identified qualifications or needs. Now is the time to develop a formal process for identifying board member prospects based on the governance competencies the board requires — not when the board needs to replace a director.

3. Competencies. Does your governing board have the skills, talents and tools to help navigate the many

daunting challenges your organization will face in the years ahead? Developing a competency-based system for board recruitment could prove to be an invaluable asset to make certain that your board has the right people sitting at the table. More boards are moving beyond equating competencies with an individual's professional background or expertise and expanding the concept to include personal capabilities such as strategic orientation and the ability to manage complexity to bring additional skills to the board table (see the April 2009 *Trustee Workbook*, "Using Competencies to Improve Trustee and Board Performance").

4. Ongoing board education. This is essential for any director, but even more for health care trustees because of the enormous complexity of the sector — ranging from the need to understand medical and quality data, to complex issues of reimbursement, physician credentialing and bioethics. The changing delivery system will further complicate matters as governing boards contemplate serious strategic questions related to issues as diverse as new payment mechanisms and population health. The learning curve will be steeper than ever, and will require boards to "unlearn" some of the guiding principles of the past as the transition from volume to value creates new incentives and shifting paradigms. This means that governing boards will have to be continuous learning teams capable of understanding and managing complexity at new and deeper levels.

5. Board and director evaluation and assessment. Most boards routinely conduct some form of board assessment; the problem is that few use assessment results to actually enhance board performance. Likewise, most boards support the notion and value of individual director assessment, but very few do it. Individual director assessment and evaluation need not be unpleasant, harsh or hypercritical. In fact, under the right circumstances, it should open the doors of communication and provide both

the board and the individual director with an important opportunity to listen, learn and grow.

Boards that fail to take seriously evaluation and assessment miss an important opportunity to improve. The failure to engage in continuous governance improvement ultimately will impact the board because the best and brightest directors don't want to waste their time serving on an underperforming board. The best way to keep strong, talented directors is to build and maintain a strong, talented board. This necessarily means devoting time to examining performance and taking action to improve it.

6. Leadership succession. Typically, most hospital and health system CEOs spend significant time with board leadership, keeping them apprised of the ongoing, complex organizational matters that require

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their thought and attention. There are few greater challenges for a CEO than a precipitous, unexpected loss of board leadership. It often takes years for board leaders to become familiar not just with the health care field, but also the organization itself.

The best thing a board leader can do is plan for his or her successor. This involves not only identifying willing, interested and capable candidates, but also investing the time, energy and resources to develop them so they will be ready to take the helm. The time to do this is not when the chair or other key board leader decides to step down. A formal board leadership succession plan will enable the board and the CEO to maintain needed continuity, especially

during times of significant change.

7. Less reporting, more engagement. Use of consent agendas, board portals and more frequent electronic communication between meetings are just some of the ways boards are now staying informed and connected. These approaches help boards use their valuable meeting time for more dialogue and deliberation on the key strategic issues facing their organizations, rather than going over reports and information they could have reviewed in advance. Meetings packed with debate, questions and discussion of alternative solutions make the most of board member expertise and experience, and position trustees as a sounding board and trusted advisor, a role executives often say is the most valuable one their governance partners can play.

Questions for Discussion

1. Has our board determined the member turnover it can expect over the next three to five years? Are our projections based on term limits, ongoing member performance assessment or some other method?
2. Do we use a just-in-time approach to bringing new members onto the board or is trustee recruitment an ongoing, deliberate process?
3. Does our board use a competency-based approach for selecting and developing board members? If so, how do we determine the competencies the board needs?
4. Does our board have a plan for ongoing board development? Does it focus on bringing board members up to speed on the transformative changes now facing health care organizations?
5. What types of board performance assessment does our board use? What do we do with the results?
6. Do we have a board leader (chair, chair-elect, vice chair, committee chairs) succession plan? How do we identify and develop future board leaders?
7. What methods does our board use to encourage informed discussion and dialogue at meetings? How

do trustees stay connected between meetings?

Once the governing board is sure that its house is in order, it can begin to apply its governance strengths to the pressing issues facing health care organizations during this time of transformation and change.

WHAT'S HOT ON THE GOVERNANCE AGENDA?

There are at least five significant issues that likely will be on the boardroom table in the coming year:

1. Physician alignment. Hospitals and their medical staffs will continue to evaluate integration models (for example, physician employment or foundation) and other vehicles that will align hospitals and their physicians both financially and on matters

of numerous, diverse and often conflicting quality and safety performance scorecards and measures continues to plague hospital governing boards and CEOs as they try to determine the most important areas of focus.

THOUGHTS ON THE FUTURE

The next frontier for health care governing boards will not be easy. Moving from current to next-generation models of care and service delivery will require boards to guide their organizations through a maze of shifting incentives, new definitions and measures of performance, and changing payment systems while enabling them to remain viable through the transition. Here is a handful of

tions. Health care governance always has been complex, and don't expect it to get any easier. With the advent of more sophisticated and complicated affiliations and organizations, the dynamics of governance will begin to extend far beyond the traditional boardroom as organizations begin to coordinate and collaborate with other providers. In many instances, boards will have to move outside their current comfort and control to share not only performance data, but also to identify, measure and monitor "shared" quality and clinical goals, and information.

3. Collaboration and trust. Collaboration and trust — especially with physicians — will be essential for the transition to integrated delivery systems. In many instances, governing boards are well-advised to focus less on ownership and control and more on collaboration and partnership. This can occur only if providers can build and maintain a foundation of trust.

4. A different mindset. For years, boards have focused on the acute care hospital as the centerpiece of the delivery system and, in many respects, it remains the same today. However, a successful transition to integrated health care systems will require governing boards to focus on systems of care, as opposed to health care systems.

CONCLUSION

Boards will be challenged to climb the steep learning curve required to guide their organizations in transformative times. Those that fail to first transform themselves by implementing effective governance practices today will be ill-equipped to take on the significant changes facing their organizations in the years ahead. **T**

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of quality.

2. Hospital affiliation strategies. Hospitals will continue to evaluate options for mergers, as well as innovative affiliation arrangements (that is, avenues for clinical integration that will enable independent hospitals and smaller health systems to expand care and geographic coverage).

3. Information technology. In addition to meaningful use, providers will need to identify ways to break down information barriers among providers to facilitate coordinated patient care.

4. Reduction in costs. Hospitals must find ways to reduce operating costs significantly and manage patient care costs within the parameters of Medicare reimbursement.

5. Quality and safety. Quality and safety will continue to be nettlesome issues for boards for many reasons, including the struggle to identify which key quality and safety areas to measure and monitor. The prolifera-

tion of numerous, diverse and often conflicting quality and safety performance scorecards and measures continues to plague hospital governing boards and CEOs as they try to determine the most important areas of focus.

next-generation items that boards will be confronting:

1. New-era affiliations. Boards can expect further industry consolidation, but should not expect a repeat of the merger mania of the past. Many hospitals and boards will be more cautious and deliberate this time around and look to new forms of affiliation that focus less on organizational control and more on innovative, collaborative means of coordinating care. While some organizations will continue to focus on building scale and acquiring physician practices, all of this will matter little if the hospitals and physicians involved cannot effectively coordinate care, prevent readmissions and, ultimately, keep communities and populations healthier. In some instances, boards will see hospitals and systems using more advanced clinical integration initiatives (rather than asset integration) to achieve these goals.

2. Complex governance configura-