Today’s Agenda

- Introductions
- Healthcare Transformation
- Transforming Governance Practice
- Governing for the Future
- Putting It All Together
- Lessons Learned
1. Why are you here?
2. What do you expect to learn?
3. What would success look like for you?
New Governance Expectations

Honorific Behavior, Compliance, Monitoring

Value-added, Strategic, Collaborative Leadership

Boards that Lead Transformation
HEALTHCARE TRANSFORMATION
Video
The Reform in Summary

- New Patient Care Delivery Methods
  - Integrated Care
  - Team Based Care
  - Accountable Care Organizations (ACOs)
- New Payment Methods
  - Bundled Payments
  - Global Payment
  - Physician Incentives
- New Technology
  - Electronic Medical Records
  - Standardization of Data Collection
Healthcare will be:

- More Integrated
- More Accountable
- More At-Risk
What’s Ahead?

Realities ahead...

- Price transparency
- Rate regulation
- Quality/cost reduction incentives
- Capacity constraints
- More partnership and integration

Winners will be...

Adept hospitals and health systems that...

- Develop competencies to facilitate performance
- Collaboration across the full spectrum of care
- Deliver quality care in a highly regulated, budget-driven, increasingly competitive marketplace

Patient Protection and Affordable Care Act (PPACA)

Volume-based Current State

- Fee-for-service reimbursement
- High quality not rewarded
- No shared financial risk
- Acute inpatient hospital focus
- IT investment incentives not seen by hospital
- Stand-alone care systems can thrive
- Regulatory actions impede hospital-physician collaboration

Value-based Transformed State

- Payment rewards population value: quality and efficiency
- Quality impacts reimbursement
- Partnerships with shared risk
- Increased patient severity
- IT utilization essential for population health management
- Scale increases in importance
- Realigned incentives, encouraged coordination
Care System of the Future

Administrative

Institutional management

Clinical

Patient management
Implications for Physicians

RIP
Community Hospital & Medical Staff
1917 - 2012
“Separate but equal”
“Hey, it worked almost 100 years”
Physicians are reexamining their respective strategic and operating roles in light of a changing landscape…

- improving quality and safety of care while achieving cost containment,
- new patient care models,
- local competition, and
- regulatory environment, including specialty services, reporting and payment
Physician Leadership Development

- The organized medical staff will be focus on organizational tasks such as credentialing, privileging, corrective actions and physician behavior
- Economic linkages, managerial roles and risk sharing will characterize the key relationship with physicians
- Development of shared vision and strategy with aligned physicians will be critical
- Broader physician leadership roles in:
  - Medical Group Governance
  - Co-managed Clinical Services Lines
  - Boards of ACOs, PHOs, JVs, etc.
  - Quality Improvement ands Patient Safety Programs
  - Care Redesign and Transformation
- Governance and leadership roles will be based on essential competencies
### Current Factors Behind Consolidation Strategies

- Payers create reimbursement pressures
- Needed capital for outpatient facilities and IT
- Pressure to justify tax-exempt status
- Less capital for smaller hospitals
- Need to increase covered lives
- Need for size and scale to gain greater efficiencies
- Costly regulatory and compliance changes
- Riskier debt structures, onerous bank covenants
- Physician alignment, ACO structures
- Spiraling healthcare costs and federal deficit
Factors Influencing Bond Rating

- Moody’s analysis of all types of consolidation models incorporates the **five key bond rating factors** included in their general methodology for not-for-profit hospitals.

- **Governance and Management**: management role clarity, governance structure, centralization and coordination, strategic execution, crisis management, etc.

- **Market Position**: physician leadership and engagement, community alignment, market share growth, strategies for mergers of unionized and non-unionized hospitals, etc.

- **Operating Performance**: integrated operating, finance and capital plans; performance projections, approach to commercial payer contracting, standardized accounting, etc.

- **Balance Sheet and Capital Plan**: capital needs and funding source assessment, asset allocation, investment strategies, use of consultants and investment managers, etc.

- **Debt Structure and Legal Covenants**: assessment of debt and lease obligations, regulatory bond approvals, decisions around changes to security packages, etc.

How are these factors shaping your institution for tomorrow?
What is your vision of the institution?

What is the experience we are trying to create for our patients?
Coordination with providers, records, evidence-based solutions, reliable continuum, community care network not just a hospital, active decision making by the patient in prevention, care and end of life

What questions must we answer?
Can we improve operations?
Link with partners to coordinate care?
Do we have the right IT systems, quality systems and improvement processes?
Can we partner effectively with physicians?
How do we joint venture?
How do we overcome inertia of doing nothing in the face of what we know is coming?
Do we have sufficient capital?
Key Questions for Trustees

- How are we engaging physicians to address the quality and utilization problems?
  - Primary Care
  - Employed
  - Hospitalists

- What are the other critical partnerships needed to reduce inefficient care?
  - Home Care
  - Patient Coaches
  - Social Services

- How do we calculate the ROI on reducing inappropriate and poor quality care?
Key Questions for Trustees

- How well are we doing managing care across the continuum?
- Do we have agreement with the clinicians how the payment will be shared?
- What is our experience in working with physicians in lowering costs for specific conditions or procedures?
- Is our infrastructure (IT, Quality Systems, Care Paths, etc.) adequate to support success in a bundled payment environment?
Implications for Trustees

- New Governance Structures
  - Shared Governance
  - Trustee Skills and Competencies
  - New Information
  - New Modes of Governing
- Strategic Initiatives
  - Wellness vs. Sick Care
  - Community Involvement
- Redesigned Outcomes
  - Measures of Success
  - Dashboards of the Future
Modes of Governing

Type 1
Fiduciary

Ensure that the organization’s resources are used efficiently and effectively in pursuit of the mission. Audit and other mechanistic routines lead to productivity.

Type 2
Strategic

Determine how to move the organization from its present to a future state. Logical process leads to predictability about the internal and external environment.

Type 3
Generative

Determine which problems to solve. Values and insight help shape a clear picture of the preferred future.

Each type of governance has a role to play. Good boards know when to act by which type.

Governance as Leadership, Chait, Ryan & Taylor, 2005
<table>
<thead>
<tr>
<th>Focus</th>
<th>Today</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>Fiduciary</td>
<td>Generative</td>
</tr>
<tr>
<td>Leadership</td>
<td>Hospital</td>
<td>Health across continuum</td>
</tr>
<tr>
<td>Operations</td>
<td>Procedure-based</td>
<td>Outcome-based</td>
</tr>
<tr>
<td>Physicians</td>
<td>Productivity</td>
<td>Quality</td>
</tr>
<tr>
<td>Risk</td>
<td>Conservative</td>
<td>Proactive</td>
</tr>
<tr>
<td>Accountability</td>
<td>Assumed</td>
<td>Transparent to public</td>
</tr>
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</table>
Summary

- Healthcare is Transforming
  - Models of Care
  - Financing
  - Restoring Health to Preventing Illness
- Governance Needs to Respond
  - New Models
  - New Discussions
  - New Work Modes
SYSTEM CASE PRESENTATION
Transforming Governance Practice
Transforming Governance Practice

- New Challenges Face Boards
- Boards Must Have a Strong Foundation to Transform Their Work
- The Foundation Includes
  - Robust Trustee Selection
  - Ongoing Education
  - Productive and Efficient Board Meetings
  - Vigorous Board Culture
- Boards Must:
  
  **ACT BOLDLY**
  
  **ACT NOW**
VIDEO
Understanding Stakeholders

Action Steps

- Assess current, future stakeholders
- Understand and prioritize stakeholder needs
- Dig deep to uncover meaningful information
- Pay attention to the voice of the customer
- Putting a patient on the board is not enough
Selecting for Competency

Action Steps

- Broaden clinician participation: nurses, others
- Tap care system partners: social service, nonprofits
- Set goals for recruiting younger trustees
- Consider competencies needed at different board levels: system, hospital
- Broaden definition of competency to include personal capabilities
Achieving Transformational Governance

Asking the Right Questions

Action Steps

- Put experts on committees to deepen inquiry
- Be aware of trigger issues: practice variation, over- or under-use of resources
- Evaluate performance broadly: episode of care- versus treatment- or procedure-level
- Use frameworks to guide inquiry
- Develop future-focused performance indicators
- Determine who owns issues; stay mission-focused
Achieving Transformational Governance

Understanding and Reducing Risk

Action Steps

- Understand the various dimensions of risk: clinical; business; operational; legal/regulatory
- Develop your board’s risk profile
- Develop tolerance and support for risk
- Add risk assessment/tolerance into board committee work
- Develop a risk grid showing impact of board decisions on the organization
Board Performance Evaluation

Action Steps

- Develop “governance metrics”
- Evaluate at all levels: board, board member, board leader, board and committee meetings
- Develop action plans for improvement
- Use results in board member reappointment
- Evaluate board decisions and decision process
Leadership Development and Succession Planning

Action Steps

- Develop for board and executives
- Assess current competencies; recruit and develop internally to fill gaps
- Absence jeopardizes organization success
Summary

- Six Steps to Transformation
  - Understanding Your Stakeholders
  - Selecting for Competency
  - Asking the Right Questions
  - Understanding and Tolerating Risk
  - Continuous Evaluation of Performance
  - Structured Leadership Development

- Planning for Governance Transformation
GOVERNING FOR THE FUTURE
DASHBOARD OF THE FUTURE CASE
Community Health Integration Dashboard (Triple Aim)

- Improved Health
- Experience of Care
- Spending per Capita
Important Conversations Critical to Success

Boards and leaders must have ongoing dialog about:

- Impact of transformation
- Understanding and reducing risk
- Needed leadership competencies
- Population health
- Value
- Assessing board performance
Revisiting Governance Structure

- Professional Governance
- Clinical Enterprise Governance
- Enhanced Community-based Governance

Courtesy of Barry Bader
“We are a ‘health company’ that, although not-for-profit in motive, embodies the culture of a high-performing, customer-focused corporate enterprise.”

“Professional commitment,” like best corporate boards

Higher performance expectations on typical volunteer board

Directors more likely to be compensated

Directors chosen for *exceptional* competence in needed areas – whether found locally or outside the communities served

Desired culture: High-performing, highly engaged team

Lean approach to size, committees and meeting frequency

Parent Board includes only independent directors, plus CEO

Multi-unit systems: One parent board, no community-based subsidiary boards (advisory bodies may be maintained or created) and regional boards could oversee multiple enterprises
Clinical Enterprise Governance

- “We are a “physician-driven, professionally managed and patient-centered” organization, with a largely employed and closely aligned medical/professional staff”
- Outwardly accountable/Internally led transformation deeply engages physician & operational leadership
- May have dual boards with working committee structures:
  1. Corporate Parent or Foundation Board with ultimate authority for high-level goals and independent oversight
  2. Accountable, active “clinical enterprise” board of senior executives, physician and nursing leaders
- Parent Board directors selected based on needed competencies, could come locally or from outside
- Parent Board; All/mostly independent plus CEO and CMO
Enhanced Community-based Governance

- “We are a community health organization that’s integrally connected and interdependent with our community.”
- Parent board has broad-based, diverse composition drawn from stakeholders in the communities served
- Board succession planning is serious, ongoing, mainly from community -- majority meets IRS independence test
- Broad-based committee structure engages directors and community leaders in key oversight functions
- High priority on community connectedness, community benefit and health disparities
- Board members expected to support philanthropy
- **Multi-unit systems**: Traditional subsidiary boards may be eliminated, or perform mainly advisory and community connectedness roles

Courtesy of Barry Bader
Where Boards Can Impede Progress

- Failing to objectively consider affiliations
- Fearing that affiliation may disband the board
- Not exercising authority to bring about change
- Engaging in incrementalism
- Failing to speak out, ask key questions
- Shutting down important conversations
- Failing to support management
- Failing to tolerate uncertainty
- Failing to evaluate whether the CEO and board are up to the challenges of transformation
Assessing Current Board Performance

- 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?
Governing in the Future Will Require:
- A new set of metrics
- New and different conversations
- New models of governing
- A desire to change

Boards must assess their readiness NOW
BECOMING MORE EFFECTIVE
Traditional Practices

- Routine education at meetings
- Individual development
- Recruitment for organizational needs
- Self-evaluation of board and members
- Focus on strategic and fiduciary responsibilities
- Internally focused on structure
- Improving current practices
- Focus on today’s performance

Transformational Practices

- Continuous learning
- Competency-based development
- Competency-based recruitment
- Competency-focused, peer-based evaluation
- Generative governance
- Accountability for outcomes
- Transforming governance to transform health care
- Focus on tomorrow
## Three Types of Governance

<table>
<thead>
<tr>
<th>Type</th>
<th>Fiduciary Governing</th>
<th>Strategic Governing</th>
<th>Generative Governing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type I</strong></td>
<td>Bureaucratic organization</td>
<td>Open-system organization</td>
<td>Nonrational organization</td>
</tr>
<tr>
<td></td>
<td>Hierarchical leadership</td>
<td>Visionary leadership</td>
<td>Reflective leadership</td>
</tr>
<tr>
<td></td>
<td>Purpose is <strong>stewardship</strong> of tangible assets</td>
<td>Purpose is <strong>strategic</strong> partnership with management</td>
<td>Purpose is to be a source of <strong>leadership</strong> for organization</td>
</tr>
<tr>
<td></td>
<td>Core work is <strong>technical</strong> (oversee operations)</td>
<td>Core work is <strong>analytical</strong> (shape strategy)</td>
<td>Core work is <strong>creative</strong> (generate ideas)</td>
</tr>
<tr>
<td></td>
<td>Plays a <strong>sentinel</strong> role</td>
<td>Plays a <strong>strategist</strong> role</td>
<td>Plays a <strong>sense-making</strong> role</td>
</tr>
<tr>
<td></td>
<td>Deliberative process is parliamentary and orderly</td>
<td>Deliberative process is empirical and logical</td>
<td>Deliberative process is robust and sometimes playful</td>
</tr>
<tr>
<td></td>
<td>Way of deciding is by reaching resolution</td>
<td>Way of deciding is by reaching consensus</td>
<td>Way of deciding is by grappling and grasping</td>
</tr>
<tr>
<td></td>
<td>Risk: financial failure</td>
<td>Risk: slow death and apathy</td>
<td>Risk: relevance</td>
</tr>
<tr>
<td></td>
<td>Way of knowing: <strong>It stands to reason</strong></td>
<td>Way of knowing: <strong>The pieces all fit</strong></td>
<td>Way of knowing: <strong>It makes sense</strong></td>
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*Governance as Leadership, Chait, Ryan & Taylor, 2005*
The opportunity to influence generative work declines as issues are framed and converted into plans, strategies, and problems.
“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… and deployed the money differently—would we have a greater impact? 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?”

—System CEO
Community Expectations

- Clinical excellence
- Compassionate care
- Coordinated care
- Maintain and improve health
Summary

- Volume-based to value-based system
- New relationships among boards, management and physicians
- New models of governance, co-management and medical staffs
- Clinically focused organizations: quality outcomes, cost efficient and patient driven
- Team-based leadership
Engaged Trustees

- Frame the Issues
- Affirm the Strategy
- Provide the Motivation and Support
- Monitor the Progress and Outcomes
- Allocate the Resources

And in Short:

Are Accountable to the Stakeholders They Serve!
What Have We Learned
What Do We Want to Accomplish in the Next Year to Achieve Transformational Governance?
Next Steps

- List those Practices Heard Today That the Board Should Adopt
- Prioritize the List
- Select the Top 2 or 3 to Complete in the Next Year
- Develop Timelines for Completion and Interval Milestones
- Report on Progress to the Board Quarterly
For a copy of the complete report:

“Governance Practices in an Era of Health Care Transformation”

Contact the AHA Center for Healthcare Governance at:
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