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New Study Urges Boards to Transform Governance

by Mary K. Totten

You are the CEO of Middle America Community Hospital. It's the week between Christmas and New Year's Day and you are digging into that pile of reading you set aside for a time when you had more than a few minutes. You pick up a report from the AHA Center for Healthcare Governance titled, "Governance Practices in Era of Health Care Transformation," and glance through the Table of Contents. The issues the report covers and the governance strengths and opportunities profiled have been the subject of recent conversations you have had with your board chair. You both agree that the board has stepped up its game in response to the myriad challenges confronting your hospital. However, it still has a way to go to establish the governance culture and practices that will make the board a valuable partner in leading the organization through the transformational change it is now undergoing. You read through the report and realize that the stories being told by hospital leaders and board members echo many of the successes and challenges your board, and others like it, are facing in the "two-steps forward, one-step-back" process that often characterizes leadership in times of significant change and opportunity. You put the report down and write an email to your board chair, attaching the report and asking her to read it and then have a conversation with you about how its recommendations might apply to your board.

If you really tackled your stack of reading over the holidays, you're better than most of us. But even if you're still contemplating your resolutions for 2013, the Center report's recommendations (see box Report Recommendations on page 3) should be on your board's short list. The report profiles organizational challenges, governance strengths and opportunities for development identified by the leaders of four health care organizations: two systems, a community hospital and a critical access hospital. A panel of governance experts reviewed the results of the 37 interviews conducted with the board members, executives and clinical leaders of these organizations and distilled learnings and recommendations to improve governance that most boards will find applicable.

Once you have read the report, you might wonder where to begin tackling the work of transforming governance to help your board provide more effective transformational leadership for your organization. In this article, three panel members from the governance study share their perspectives about how boards might use the report to challenge and improve their own governance practices.

Where to Begin

The best place for boards to start transforming their governance, panel members said, is to look inward.

"Boards need to critically evaluate themselves using the report's recommendations as a guide," said Nancy Formella, who recently retired as executive advisor to the boards, Dartmouth-Hitchcock Health System, Lebanon, N.H. "Every board needs to determine its strengths and weaknesses in relation to what it will take to lead transformation in their organization, and most boards aren't used to having these conversations."

Board effectiveness has a lot to do with who is chairing the board, said Katherine Keene, trustee, Salem (Ore.) Health. "Board chairs should ask themselves if they are the right person for the job—whether they have the emotional maturity, ability to ask tough questions and provide constructive feedback, and other skills sets necessary to take on transforming governance. The CEO also has to be supportive of having the board change and grow. Boards should take a serious look at the competencies listed in the report that are needed for success in the current environment, assess the board against these competencies and address gaps. Focusing on competencies is a good place to start."

"Examining your board's culture is an important initial step," said Rick de Filippi, former board chair, Cambridge (Mass.) Health Alliance. "Just like the organizations they govern, boards should establish a high-performance culture which includes being transparent, candid and self-critical. Ongoing evaluation

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should occur at all levels of board work. Boards also need to adopt a big-picture, long-term view and examine whether different models of governance are required in different parts of the organization, such as at system, local hospital and physician enterprise levels."

The panel's report stresses the importance of boards being mission-focused in moving from volume- to value-based care and creating a vision for the organization based on what's best for the health of the community.

"Putting community health first, understanding how to care for and improve the health of a population and using the results of Community Health Needs Assessments to set organizational strategies are all key steps the report urges boards to undertake to ensure their organizations provide the right care with the best possible outcomes at a reasonable cost," de Filippi said. "Making this kind of large-scale impact also will require partnering with other health care providers and community organizations to achieve goals that meet value-based priorities."

Keys to Success

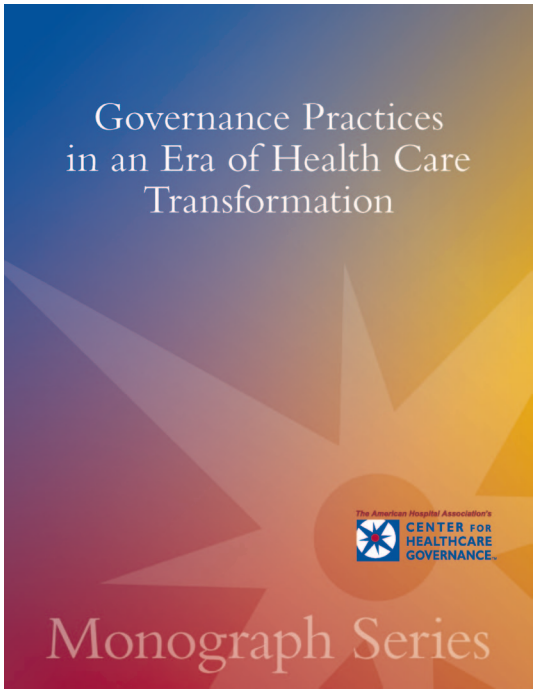
Gaining board, executive and clinical leadership buy-in for governance transformation is critical for success, panelists noted, as is creating an infrastructure to support change. And, even with the right approach and resources in place, the work is not quick or easy.

"Boards should empower their leadership and their Governance Committees to take on this work," Keene said. "The immediate past chair of our board chairs the Governance Committee. We have found that our past chairs understand the board's strengths and weaknesses and can effectively provide leadership continuity."

"Holding a mirror up to examine your own performance is difficult for most boards," Formella noted. "Our board engaged an outside facilitator to help provide objectivity when it took on this work. He analyzed our board agendas and noted that we had not built in much time for discussion, so we spent time modeling what effective board conversations are like. He also interviewed every board member and then reported back to the full board about the needs and challenges members identified. This led us to examine the explicit and implicit assumptions and rules that defined board culture and have a candid discussion about them. The work also included creating written job descriptions for board members and leaders, which then became the basis for ongoing evaluation of performance."

"We recognized that transforming governance would have an impact on board stakeholders," she said, "so we involved in the process C-suite staff who typically worked with the board and kept medical staff and academic leaders apprised of our progress. Boards also need to consider that employee engagement is necessary for successful transformation at all levels and ensure employees are engaged in the process."

Panelists noted that successfully transforming governance depends on board engagement and appropriate support.



Click here to learn more about the report.

"We required board members to do outside reading and framed questions for discussion at each meeting, which ensured everyone was prepared," Formella said. The Dartmouth-Hitchcock board spent three to four years improving their governance practices, and ongoing coaching for new board leaders continues to occur.

"Our outside facilitator acted as a buffer for us, which is important because lots of denial can be a part of the governance transformation process," she said, "and boards can get discouraged." One way to help get past some of these obstacles, Formella suggested, is to first ask the board to discuss what irritates them about the way the organizations works. Then ask them how they as a board reflect some of those irritating practices when they do their work. This helps the board get at their own shortcomings indirectly. "This work is a lot harder than you think it is," she said, "but boards have to persevere and dig in, because this is board work and can't be delegated."

Boards also need to consider that unlike other board committees, such as Finance or Audit and Compliance, the Governance Committee may not have dedicated staff with expertise in governance to support it in leading transformation and carrying out the work of a transformed board, Keene said. "Our outside General Counsel provided key support for our board, acting as the 'conscience' of our committee and keeping us focused on our commitments."

Board members also need to be prepared to take on some of this work themselves, and CEOs need to let them get involved.

"CEOs and their executive assistants may not have formal training in governance and may not see transforming board work as their first priority, given all the other issues they are responsible for in guiding their organizations through the significant changes now occurring in health care," Keene said. "Yet making

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sure the board is up to leading transformational change should be an organizational priority. CEOs who decide not to focus on it are missing a great opportunity to share the burden with community leaders who have demonstrated an interest in helping the organization succeed. The time of the 'omnipotent' CEO is past, and those CEOs who still feel they have to solve every problem or have all the answers are failing the test of leadership."

Returning routinely to the mission as a touchstone for board work helps ensure that both boards and organizations focus on the right purpose for transforming governance. Always being mindful of what's right for the community will lead to a conversation that panelists believe is a critical step in transforming board work, particularly for smaller hospitals.

"Boards of smaller, freestanding organizations must conduct a fact-based, hard-headed assessment of whether the organization can continue to stand alone or whether it needs to partner with a larger organization," Keene said. "This focus will help boards ask important generative questions such as: Are we doing the best we can do? Are we using our organization's resources in ways that can achieve the best results for our community?"

Boards governing health care organizations that may partner or merge with another hospital or system should also take this potential step into account when transforming their own governance, she said. Filling vacant board seats with people skilled in large-scale change, population health and strategic thinking and empowering the Governance Committee to look for people with these types of skills are some activities boards can undertake.

Ongoing Effort Required

For most boards the hard work of truly transforming governance still lies ahead, but for those farther down the road, the work is proving worth the effort.

Report Recommendations

Bold Board Moves to Transform Governance Practices

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.

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"The focus of the Salem Health board is continuous governance improvement based on having needed competencies," Keene said. "We noticed a big change when we updated our competency matrix from looking for job titles to seeking specific skill sets. This signaled that we were concentrating more on the type of work an individual has done rather than on the venue in which he or she has done it. Improving our board practices also made us realize we needed to get tougher on conflicts of interest. As part of that process we decided to bring in people with clinical backgrounds from outside the organization. We still invite our medical staff president and president-elect to attend board meetings and provide input, but people in these positions are no longer automatically members of the board."

Being willing to do the hard work, taking the time necessary to do it right and sustaining improved practices are some of the challenges boards should expect. "Invest in your board members, get outside help from governance experts and understand that having a strong board can be threatening to some CEOs," Formella said. "Make sure the CEO supports strengthening the board, and understand that the right leaders for today's health care organizations require a blend of confidence and humility. Boards that meet in executive session to discuss major improvements in governance also need to keep the CEO apprised, but be clear that this is board work."

Boards need to understand that once improved governance practices are put into place they won't sustain themselves. "A tenacious commitment is required and boards need to put up 'guardrails' to prevent themselves from lapsing into old practices," Keene said. "Some boards still yearn for the old days when they met for dinner and had a nice conversation. It's very hard to change a board's culture and expectations."

> "It's very hard to change a board's culture and expectations . . . anything less than a rigorous, self-critical examination of board practices is not enough in times like these."
>
> Katherine Keene
> Trustee
> Salem (Ore.) Health

Is Transformation Working?

When asked how boards will know whether their transformation efforts are working, panelists offered these observations.

"When governance improves, the organization's quality performance should improve as well," Keene said. "Boards should see that the tough issues are being raised and addressed. Board members that have done this work will find it easier to have tough conversations and disagree without thinking that they are under personal attack. Over time, skills develop and these conversations will move from being perceived as acceptable to being viewed as a requirement of good board work."

This is also true of building leadership development and succession planning into the board's work, she added. "Often people who are not in the right positions are relieved that they have been given the opportunity for a graceful exit."

Boards and organizations that undertake governance change should be "careful what they wish for," Formella said. "When boards are empowered to do the work they are supposed to do, the organization should not be surprised when the board's expectations rise and it holds the organization accountable for higher performance."

The worst outcome, Keene said, would be for a board to only scratch the surface of governance change and then adopt a "been there, done that" attitude. "Anything less than a rigorous, self-critical examination of board practices is not enough in times like these."

"The study panel had an obligation to be open and honest in assessing the progress health care boards have made in governing effectively," de Filippi said. "The time has passed for boards to think change is optional, and the substantial transformation our health care organizations are now undergoing to improve their performance makes a compelling case for boards to raise their performance as well."

"Boards that believe high-performance governance is required will be willing to change," he added. "Yet, I think about some boards I know and wonder whether their chairs will be willing to have their competency evaluated or whether they will be happier and more comfortable leaving things the way they are. The panel believed it had to go on record saying that boards must significantly improve the way they govern as soon as possible to effectively lead transformation in their organizations. It's time for boards to lead by example."

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Applying Competency-based Criteria to Committee Makeup and Education

by Barry S. Bader

More and more boards are adopting the practice of using competency-based criteria to select governing board members. They identify the subject areas and behavioral qualities needed from trustees and apply them to recruitment, orientation, leadership development, succession planning and periodic evaluation. We've discussed competency-based governance in previous issues of *Great Boards* and other publications from the AHA Center for Healthcare Governance and *Trustee* magazine (see box below).

Why stop there? A competency-based approach also can be applied to populate the board's committees with individuals who possess the knowledge, skills and abilities needed to execute their responsibilities.

A board's working committees should be its engines for rigorous oversight of organizational performance. When the board's committees do a thorough job in key oversight areas – particularly, finances, quality and patient safety, audit and compliance, community benefit and executive compensation – the full board can review and approve committee reports expeditiously, focusing on unexpected variations and committee recommendations for full board action.

Equally important, effective committee work frees up time at full board meetings for substantive discussions of strategic-level and future-oriented matters. The road to "generative governance" is paved by the working committees.

Consequently, the board should apply a competency-based approach to choosing, educating and evaluating both board members and non-board members who serve on each working committee. Annually before making committee appointments, the board chairperson, working with the governance committee, should consider the competency mix of each board committee and adjust its makeup accordingly. Here are some steps to consider:

- **Develop a concise list of competencies needed by each board committee.** The list should include areas of knowledge and skills applicable to each committee's responsibilities. Review the bylaws and committee charters to help identify the competencies pertinent to each committee's specific responsibilities. Also consider how environmental trends, the organization's strategic plans, and regulatory developments could affect committee work and therefore the competencies committee members need.

  Take, for example, the board's quality and patient safety committee. Members should possess knowledge in such areas as the measurement and improvement of patient care and patient safety, as well as the ability to interpret reports containing clinical information. They should be able to question clinical leaders in a constructive manner. In addition, as hospitals transform into integrated care systems that are accountable for costs and quality along the continuum of care, the committee also might benefit from members with expertise in ambulatory and long-term care.

  In developing a list of competencies, keep in mind that committee competencies expand rather than replace the competencies expected of every director, such as mission commitment, active engagement, strategic thinking and communications. In addition, broadening the diversity of the board and its committees remains an important consideration.

- **Profile the capabilities of the present committee and identify "gaps."** Develop a matrix showing which current members of the committee have the knowledge, skills and abilities the committee needs. Figure A (page 7) shows an example of the competencies for typical board committees, and how names of

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More Resources for Competency-based Succession Planning

"Competency-Based Succession Planning," *Great Boards*, November 18, 2010, *http://www.greatboards.org/newsletter/2010/Succession_Planning_for_Board_Members.pdf*

"Recruiting a More Diverse Board," *Great Boards*, Winter 2007-2008, *http://www.greatboards.org/newsletter/2008/GB-2007-Winter-Full-issue.pdf*

Competency-Based Governance Tool Kit, 2011, *http://www.americangovernance.com/americangovernance/publications/competency-based-governance-tool-kit.html*

"Tomorrow's Board Leaders," Larry Walker, *Trustee*, October 2012

"Bringing Rigor to Board Succession Planning," *Trustee*, online interview, *http://www.trusteemag.com/trusteemag/html/WebExclusive0812SuccessionPlanningPodcast.html*

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committee members and "prospective members" might be displayed for analysis and discussion.

Look for a mix of "experts" or "specialists" as well as generalists. Experts and specialists have professional training and experience in the committee's subject matter. A chief financial officer, for instance, can be expected to bring greater depth and experience in financial planning and analysis than a business owner or company executive who has a broader, more general perspective. Both are valuable but there's no substitute for having some directors with specific professional expertise. Differentiate too between trustees with outside professional experience and those who've "learned on the job" as trustees through board education and experience. Again, both make valuable contributions, but there's no substitute for outside training and expertise.

Use the matrix to answer several questions:

- Does the committee possess at least a "critical mass" of several members with the necessary competencies to perform this committee's responsibilities?
- Is at least one trustee committee member with specialized expertise an "independent" member who has no material conflicts of interest?

The answers to these questions should help determine if the committee possesses the appropriate competencies or if strategic changes are needed to its makeup.

- **Consider the benefits of committee rotation and the future impact of board and committee turnover.** On many boards, trustees stay on the same committees for their entire tenure unless they ask for a new assignment. Other boards believe in rotation of some trustees among various board committees every few years. Periodic rotation has pros and cons. It keeps board work interesting. It gives all board members an opportunity to learn about and gain confidence in each committee's work. It can bring fresh viewpoints and new outside perspectives, helping the committee stay independent and current.

  The obvious downside risk of rotation is that a committee loses members with specialized subject matter skills or experience in the committee's work.

  However, thoughtful attention to adjusting each committee's makeup by one or several members every year can bring the benefits of rotation while ensuring that each committee retains directors with essential knowledge and skills. It can be particularly useful to rotate the "generalists" every few years while keeping subject matter "specialists" in place longer.

  Another factor to consider is succession planning. Each committee should have a chairperson and either a co-chair or one or more trustees with the competencies to step in to the committee chair role in the future.

- **Consider multiple sources of committee members.** In addition to board members, boards should consider bolstering the committee's competencies with talented individuals from the community, medical staff and affiliated boards, such as a foundation board. Some boards create a permanent advisory body of interested individuals, including former trustees and community leaders, some of whom serve on board committees.

  A board committee also can be an ideal place to engage an individual from outside the service area who has the knowledge, skills and independence the committee could use. For example, in a multi-hospital system, a board quality committee might recruit a physician executive from another hospital in the system. A teaching hospital might attract an alumnus of its training programs who is a recognized quality leader to support the board's responsibilities for quality and inject a new perspective.

- **Use the competencies to plan education and development opportunities.** The committee competencies also can be used to suggest opportunities for education and development, either by a committee or the full board. Periodic committee self-assessment can identify areas of knowledge or skills or emerging trends to address. Currently, committee competencies such as these might be relevant topics for committee or full board education:

  - Organizational transformation and culture change
  - Bundled payment models and incentives
  - Hospital-physician alignment and integration
  - Mergers, acquisitions and strategic partnerships
  - Community health improvement needs and improvement strategies.

A competency-based approach to committee makeup can help board committees maintain their skills and their freshness, and thus enable the board to fully tap the talents of all their members.

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Figure A. Sample Competency-based Matrix for Committee Composition

	Finance Committee	Quality and Patient Safety Committee	Audit and Compliance Committee
Competencies	• Financial management and planning • Financial analysis • Business risk assessment • Bond ratings • Financial aspects of mergers and large transactions • Health care markets and payment systems • Ability to analyze financial reports and trends and apply them to strategic thinking, financial planning and high-level decision making	• Clinical quality measurement and improvement • Evidence-based care • Performance improvement strategies in industry and health care • Patient safety practices • Patient and customer satisfaction • Medical and nursing care processes and education in acute, ambulatory and long-term care settings • Medical informatics and technology • Organizational transformation and innovation • Ability to understand performance reports, trends, sentinel events and other information and apply to board responsibilities for decision making and oversight	• Financial audit • Financial management • Enterprise risk management • Corporate compliance • Laws and regulatory policy • Organizational and individual ethics • Ability to understand and act on audit and compliance reports
"Specialists"	*Names*	*Names*	*Names*
"Generalists"	*Names*	*Names*	*Names*
"Prospective" new members	*Names*	*Names*	*Names*
	Executive Evaluation and Compensation Committee	**Community Benefit Committee**	**Governance and Nominations Committee**
Competencies	• Executive leadership of large, complex organization • Human resources development • Leadership development • Executive and physician compensation • Ability to engage in oversight and decision making • Organizational and individual ethics	• Community health and improvement strategies • Understanding of underserved and vulnerable populations in the community • Linkages to other community organizations and their leadership • Organizational mission and values • Laws and regulations affecting not-for-profit organizations • Community orientation • Ability to understand information about the organization's mission effectiveness and apply to board responsibilities for decision making and oversight	• Experience as a board member in another organization • Good governance practices • Human resources development • Adult and continuing education • Laws and regulatory policy • Organizational and individual ethics • Ability to understand and act on committee information
"Experts" and "Specialists"	*Names*	*Names*	*Names*
"Generalists"	*Names*	*Names*	*Names*
"Prospective" new members	*Names*	*Names*	*Names*
	Human Resources Committee	**Strategic Planning Committee**	**Philanthropy Committee**
Competencies	• Human resources development • Leadership development • Employee engagement and satisfaction • Labor relations • Workforce issues • Ability to engage in oversight and decision making	• Strategic planning • Global trends in health care • Community health status and improvement • Ability to think strategically and integrate strategic planning with long-term financial planning • Ability to understand and apply the organization's mission to the board's responsibilities for strategic planning, decision making and oversight	• Fundraising strategies and methods • Strong connections with other community organizations, potential donors and "connectors" • Volunteer orientation • Ability to understand and act on committee information
"Experts" and "Specialists"	*Names*	*Names*	*Names*
"Generalists"	*Names*	*Names*	*Names*
"Prospective" new members	*Names*	*Names*	*Names*