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HEALTH

E-Briefings

Volume 14, No. 3, May 2017

Welcome to The Governance Institute's E-Briefings!

This newsletter is designed to inform you about new research and expert opinions in the area of hospital and health system governance, as well as to update you on services and events at The Governance Institute.

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The Criteria for Systemic Cost and Quality Enhancement

By Rulon F. Stacey, Ph.D., FACHE, and Kate Goonan, M.D., Navigant

Most healthcare leaders have felt something like **Exhibit 1**, with various quality enhancement tactics and initiatives running through their minds. In today's healthcare industry there is more pressure to perform than ever before. While working in the most regulated industry in the country, hospitals, health systems, and physician groups are now tasked to drive out costs while also improving quality. For years, the healthcare industry subscribed to the notion that society had to choose between low costs and high quality. But healthcare consumers have now seen through that argument and rightfully expect both simultaneously.

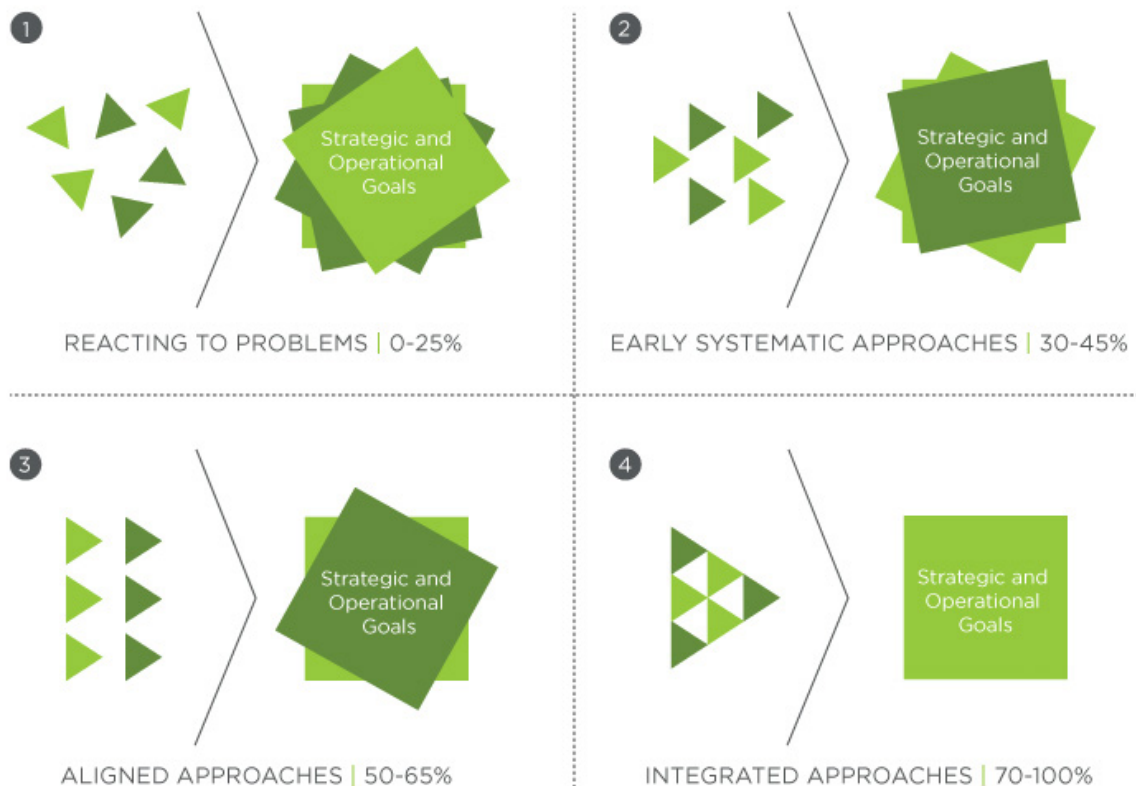
This complex dyad cost/quality challenge drives governing boards and executives alike to look for quick fixes and silver bullets. Like a physician who orders Tylenol for a post-op patient with a fever without considering the possibility of sepsis, administrators sometimes reach for tactical solutions that do not always address the overall systemic causes or create sustainable solutions. However, as the fiduciary, the board of directors is in a position to drive toward longer-term, systemic transformation to address both cost and quality, and ensure improvements are sustained through measurable results.

Exhibit 1: The Pressure to Perform



Source: All the exhibits in this article were adapted from the Baldrige Framework (available at www.nist.gov/baldrige/products-services/baldrige-excellence-builder).

Exhibit 2: Steps towards Mature Processes



To help guide board members through this dilemma, **Exhibit 2** illustrates four phases of maturation in organizational leadership and performance. As depicted in the upper left quadrant, though the workforce may be working extremely hard, many organizations are only reacting as issues present themselves. Daily work (arrows) bear little connection to the organization's strategic and operational goals. Cost and quality performance is invariably low in such environments.

As management develops systematic approaches to daily operations and strategy, results begin to improve in areas of focus. Though some processes remain duplicative and variation continues, the organization should take pride in these areas of achievement. More importantly, they should ask the question: How do we replicate our successes in x-y-z initiatives across the enterprise to improve our overall market position?

As organizations mature, leaders reach the point where they start thinking like a system and align different parts of the organization. This is when leaders start to drive out variation and see measurable cost and quality improvement across multiple dimensions of system performance and operating units. The ultimate goal is an organization that is both aligned *and* integrated, with process variation and duplication driven out. Every person knows and understands the organizational vision,

their personal role in making that happen, how to add value to the processes they work in, and the metrics that will determine the organization's success.

Systemic vs. Tactical

With the pressures of healthcare reform, it is critical that governing boards ensure management addresses the complexity of industry challenges with a systematic and strategic solution, and not a tactical response. After careers of working on such systematic solutions, the authors firmly believe that the single best framework for addressing organizational issues is contained in the Malcolm Baldrige National Quality Award's performance excellence process. While tactical approaches work to solve specific problems in specific areas, the Baldrige performance excellence framework allows for the integrated approach needed to meet reform challenges with sustainable results. Let us explain.

Most of the tactical solutions outlined in Exhibit 2 are effective tools used to address very specific situations. Here are some examples:

- **LEAN:** Principles of LEAN process improvement are particularly effective when used in the right place. The LEAN manufacturing process was designed to eliminate waste and force use of the right tools in the right place at the right time. LEAN is also useful to make sure the right people are in the room to ensure informed decisions.

Just about every care provider could benefit from incorporating LEAN thinking in their culture and LEAN tools into their performance improvement methods. However, despite the extraordinary value, even the most effective LEAN initiative is not as effective in helping develop an organization-wide, comprehensive process to ensure all employees are personally engaged in working toward the organization's vision and strategic intent.

- **Strategic planning:** An effective strategic planning process is essential to the success of any organization, with the most impactful processes driven by cycles of evaluation and improvement. The board of directors should own the strategic plan and ensure it's replicated every year, to include mandatory annual board training. However, even the most robust strategic planning process will not by itself address, for instance, cost per case in the OR, post-op infections, or effective emergency department patient throughput.
- **Employee and physician engagement:** Leading healthcare organizations understand that they must first take care of their employees before expecting them to provide optimal care to patients and communities. A healthcare organization that does not work effectively to engage its employees and physicians will never be as effective as it could be in any area.

However, working to engage employees and physicians does not necessarily help the board of directors to be more educated in healthcare governance, initiate system-wide data communication initiatives, or produce a highly effective OR.

- **High reliability:** Pursuing high-reliability cultural attributes, methods, and tools is relevant to many healthcare organizations. As providers create a specific, data-driven approach to improve patient safety and drive preventable errors to zero, patients will be saved and costs will be reduced. However, without a comprehensive process that engages the entire organization from the board to the cafeteria, leaders risk marginalizing high reliability like other quality initiatives from the past. Complex organizations require a systems approach to integrate safety with business imperatives, as well as other market requirements such as patient-centered care and population health.

All of these and many other tactics are *necessary*, but not *sufficient*. Success demands a process to effectively manage each area simultaneously and create the ability to use the right tactic at the right time to produce the long-term, sustainable results that organizations need.

Exhibit 3: Baldrige Framework

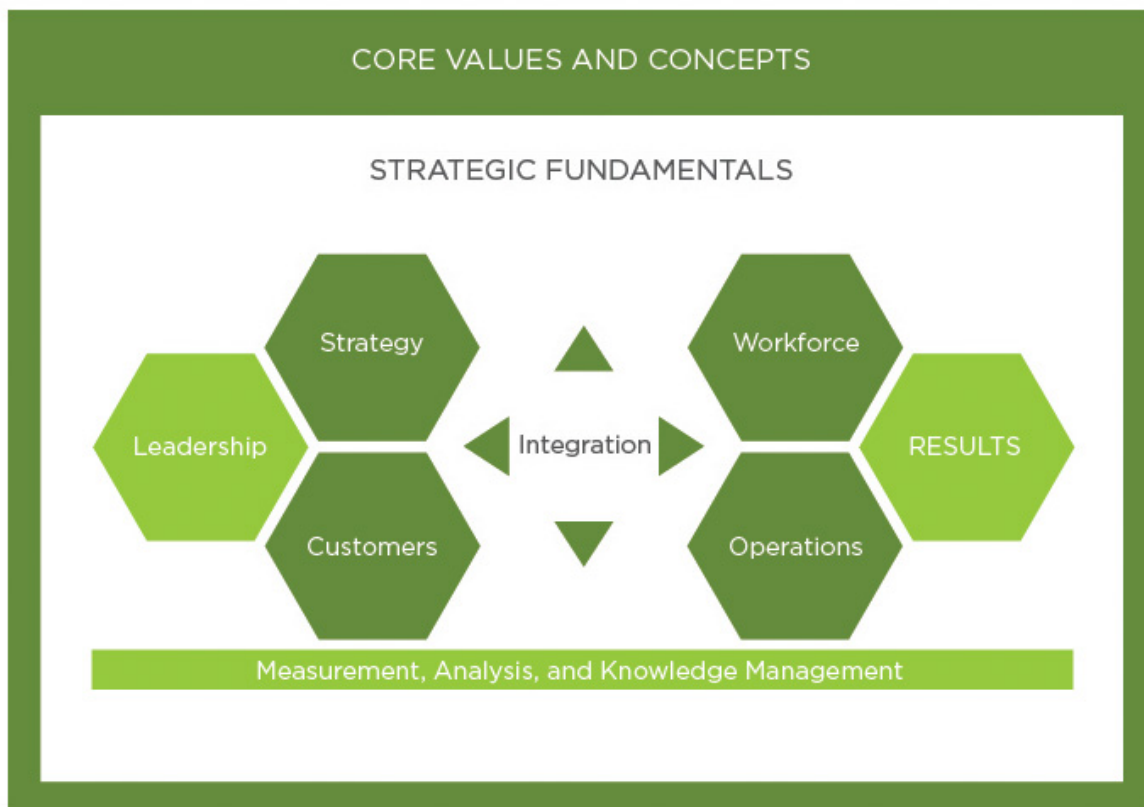
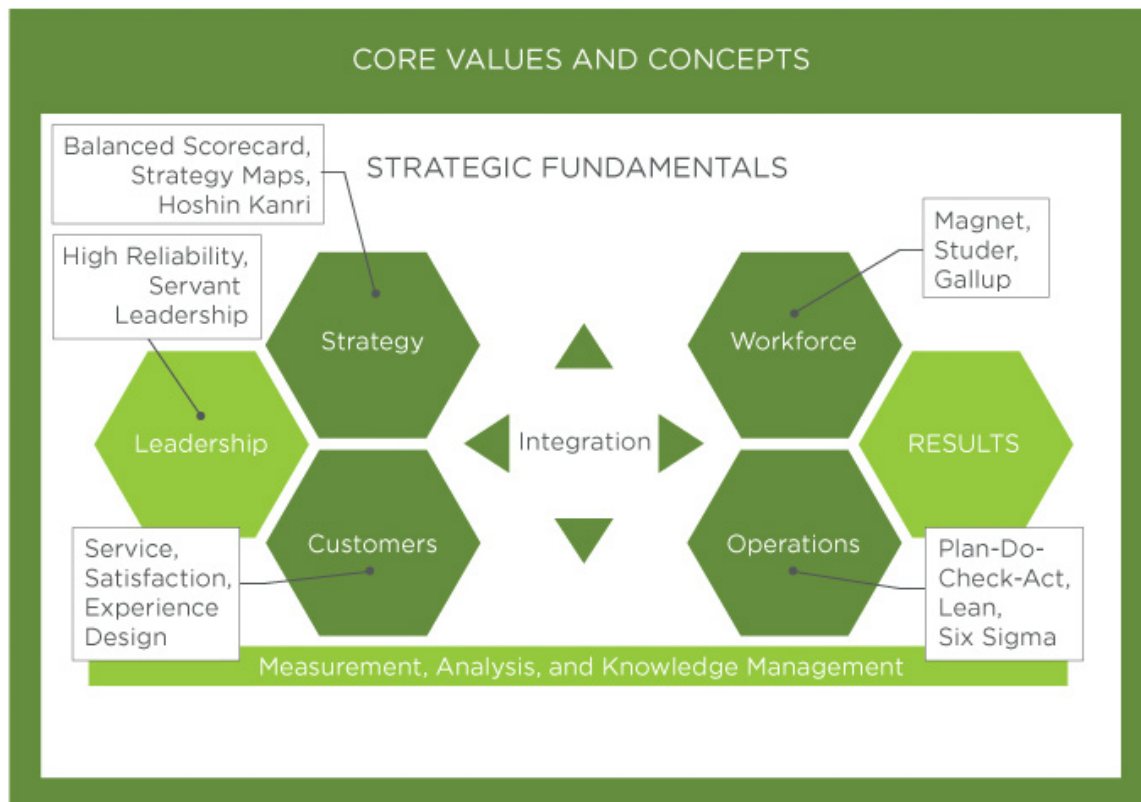


Exhibit 3 on the previous page, shows all of the areas needed for an organization to truly develop a “systems” approach to capability building. The seven categories listed in this diagram are all interwoven and must be simultaneously addressed. Only then will an organization be able to move from fighting fires and reacting to a fully aligned and integrated system that can achieve sustainable results across multiple

dimensions of performance. Each of these are of equal importance.

Unfortunately, as hospital administrators work to find quick solutions to the extraordinary pressure being placed on the industry, they often will use one of the tactics shown in Exhibit 2 to obtain a quick fix to a specific problem. Such a solution is not sustainable, and rarely addresses the larger systematic process.

Exhibit 4: Baldrige Framework with Tactics



The Baldrige framework can be applied to all healthcare organizations, regardless of type. While there are significant differences in what a fiduciary board or an advisory board can do, this process will benefit any organization independent of the nature of whether they are an operating board or a holding company board. A fiduciary board will have more latitude to enforce this process, but knowledge of the process will help board members or leaders of any organization.

As **Exhibit 4** suggests, we have much to accomplish. Many of the tactics being used today address only one area of the entire systems framework outlined in the Baldrige performance excellence process. Absent a larger systems approach to guide where and when to use the specific tactics, the tactics themselves become the focus, instead of the longer-term sustainability that come from the systems approach. Initiatives turn into silos without leaders who can

oversee their organizations with a comprehensive systems view.

In our experience working with providers across the country, there are two main reason they generally give for not wanting to pursue a Baldrige journey:

- 1) "We just have too much going on right now to pursue Baldrige."
- 2) "We would pursue Baldrige, but we are focused on another quality program."

These are understandable responses for those who believe the Baldrige's performance excellence criteria is just an award or another tactic. But as we have experienced firsthand, the framework can align *all* of the other tactics toward one common goal of organizational alignment that eliminates duplication. Ironically, for organizations that are pursuing too many tactics, performance excellence is the answer, not another problem. The Baldrige discipline forces

leaders and managers to focus, ensure effective execution, and deliver results.

As a board moves to develop a long-term process for improvement, it will also need to create momentum toward a sustainable systems approach, as opposed to “bandage” solutions. The Baldrige’s performance

excellence criteria is essential for creating a process that addresses quality and cost as an integral part of a much larger systematic approach. The Baldrige framework provides a blueprint and scaffolding to use in organizing and evaluating the tactics you chose to meet the challenges your organization faces.

The Governance Institute thanks Rulon F. Stacey, Ph.D., FACHE, and Kate Goonan, M.D., Managing Directors at Navigant, for contributing this article. They can be reached at rulon.stacey@navigant.com and kate.goonan@navigant.com.



Board Duties in Periods of Uncertainty

By Michael W. Peregrine, McDermott Will & Emery

An overarching 2017 governance challenge for hospitals and health systems is to position their boards to respond to the current “climate of uncertainty.” This uncertainty extends beyond the ultimate fate of the Affordable Care Act (ACA) to an increasingly volatile political climate and global economy, all of which present particular strategic and operational risks to healthcare organizations. To be an effective partner to management in such circumstances, and to properly exercise their duties, directors may be expected to exercise a heightened level of engagement. The general counsel can be an effective guide to the board and to senior management in articulating a pathway to enhanced engagement.

A Unique Climate

A number of diverse, yet significant factors have emerged over the last six to eight months to affect the boardroom dynamic. These factors include the obvious: elections at both the global and national level and the significant policy shifts that come with them, fluid economic trends and financial market performance, the unknown status of tax reform, the implications of possible regulatory rollback affecting major industry sectors, the shift in power on the Supreme Court, and contentious international relationships/geopolitical risks.

They also include the less-than-obvious, including the implications of political deadlock, partisan delays in approving nominees for leadership posts and in moving legislation, waning public confidence in traditional institutions, uncertainty as to regulatory enforcement priorities, the deferral of material business initiatives and capital commitments, subtle shifts in the workforce profile, etc. Then, of course, there is the profound uncertainty as to the future of the healthcare financing model, whether under some version of the ACA or other approach.

The consensus in the business and governance worlds is that these are not the “run of the mill” environmental changes through which the average board member is expected to navigate without

difficulty. Rather, they are unique, diverse, and significant, and are impacting how board members are expected to interact with increasingly complex corporate agendas. For the hospital or health system board, these changes implicate critical issues with respect to corporate strategy, financial stability and credit rating, revenues and reimbursement, physician relations, legal compliance, capital investment, and board composition, among other key topics.

The Focus on Engagement

Director conduct is evaluated by regulators and the courts in the context of the circumstances presented to the board at the time(s) in question. The core duties of loyalty and care don’t change in their scope and application. However, as the intensity of the challenges, controversies, or options facing the board increase, so does the expectation of director attentiveness. As a result, the expectations of director conduct are naturally greater in periods of conflict, controversy, or uncertainty. When the circumstances reach the level of broad-based uncertainty (like the present), *significantly increased* levels of board engagement will become the order of the day. This is particularly the case in the context of a hospital or health system facing seminal changes to its business model, seeking substantial capital investment, or trying to make critical strategic decisions in the absence of clear regulatory direction.

The question then becomes—not only for directors but also those who advise them (senior management and the general counsel)—what does that level of engagement look like? How is it appropriately manifested, in terms of director conduct, board structure, and board processes?

This level of engagement can be manifested in several ways. The most critical manifestation is the time devoted to the overarching board agenda. A second, related manifestation is being fully informed on political, economic, and regulatory developments of relevance to the organization and its business model. A third manifestation is repositioning the composition and structure of the board to ensure

responsiveness to these and similar developments. A fourth manifestation is a fulsome understanding of the board's role as a "partner" to the executive management team.

In times of uncertainty any director with significant fiduciary duties, no matter what type of organization they oversee (e.g., system, public hospital, critical access facility, etc.) will need to apply this high level of diligence. All fiduciary boards will likely be called upon to exercise their duties in a more attentive, engaged manner.

Commitment of Effort

The traditional indicia of fiduciary engagement is the effort contributed by the individual director. This subjective factor usually incorporates concepts such as hours of preparation, attendance at meetings, conduct (e.g., participation in discussions) at meetings, membership on committees, periodic communication with management, and a meaningful effort to be knowledgeable of events that affect the hospital or health system. It is in such situations where "overboarding" concerns become paramount.

There is a certain amount of self-evaluation that needs to be conducted by individual directors, and by the full board, in such circumstances. From the individual director perspective, the question is whether he/she has the time and energy to commit to a higher level of involvement as it relates to individual service on the board. Would the necessary commitment require a pruning of his/her current board service on other boards? From the full board perspective, the question is whether formal "service on other boards"-type policies need to be implemented to reduce the risk that individual commitment will be significantly distracted by their other board service.

Informed Status

Another traditional reflection of director engagement is the extent to which the director is sufficiently informed as to the matters at hand, as it relates to the exercise of his or her fiduciary duties. In particular, the director's performance of his/her oversight and decision-making responsibilities is predicated upon the director being sufficiently informed. In the context of the current "climate of uncertainty," the concept of "sufficiently informed" assumes a broader commitment on behalf of both the individual director, and of executive-level governance support.

Certainly, directors will be expected to maintain a basic level of familiarity with current health policy initiatives (including the status of the health reform policy debate) and their implications for the hospital or health system. This would likely include the status of the ACA repeal movement (i.e., repeal and "repeal and replace"); the projected financial implications of repeal to the organization's strategic and financial

planning; and repeal's impact on such associated issues as Medicaid expansion, Medicare reform, spending reductions on Medicare fee-for-service payments, and the future of payment mechanisms promoted by MACRA. Familiarity with these and other factors will support effective director contributions to the board's strategic agenda. This familiarity can be provided through a combination of staff briefings, dissemination of briefing memos, and presentations by outside advisors. It also presumes that the director himself/herself will closely follow developments reflected in the daily media.

But directors should also maintain a sharper awareness of how broader political and economic developments may have material implications for the hospital or health system. To what extent do issues like border security, immigration restraints, trade conflict, global trade and conflict developments, regulatory reform, and significant market fluctuation affect the organization? Would a Dodd-Frank rollback have spillover effects? Could administration pressures on certain key industries expand to include healthcare? Will the new Supreme Court Justice influence upcoming rulings on healthcare-related cases?

Board Composition and Structure

The desired level of engagement can also be supported through a re-evaluation of the composition and structure of the board. To what extent would effective engagement be enhanced by nominating board candidates who possess a greater diversity of thought, experience, and perspective than is currently available on the board? Such broader evidence of director diversity is clearly a governance trend.

A related approach would be to position key board committees to address elements of health reform and business/political uncertainty that are implicated by their respective charters. For example, the finance committee could be directed to monitor the financial implications of the various healthcare, Dodd-Frank, and Sarbanes reform options; the strategic planning committee could revisit the ongoing validity of the current strategic plan, as well as new trends in government antitrust enforcement and the administration's commitment to MACRA-styled initiatives; the executive compensation committee could monitor the effect of healthcare and Dodd-Frank reforms on existing and future executive incentive payment goals; and the compliance committee could evaluate the impact of future regulatory reform on compliance program tenets.

Partner to Management

Director engagement is further enhanced when the board more fully embraces its role as a "partner" to executive leadership in the operation of the hospital or health system. Indeed, progressive principles of corporate governance encourage the board to maintain a close relationship with the CEO, providing

advice to management in the context of a “strategic partner” as well as monitor.

This is not to suggest any reduction of the board’s crucial responsibility for independent oversight of management. Nor is it to suggest that in times of uncertainty or instability the board should be unusually passive or particularly deferential to management. Rather, it is a recognition that a collaborative, supportive relationship is expected between management and governance, and can generate leadership dividends in periods of external or internal stress.

Indeed, serving as a “sounding board” for senior executives need not compromise director independence. The law expects that a truly collegial relationship will be maintained between the board and members of the senior leadership team. The ability of the CEO (and other senior executives) to turn to the board for advice and counsel will likely enhance the

organization’s ability to navigate periods of uncertainty and volatility. But the ability of the board to provide meaningful support to management is dependent upon the extent to which the board is informed on prevailing conditions and devote sufficient time to the board agenda.

Summary

The current climate of extraordinary political, economic, and legislative uncertainty should be the primary focus of the hospital/health system governing board. To adequately address this fiduciary challenge will require an extraordinary commitment of time and energy by the board. Strong support from the executive leadership team will be a prerequisite. The general counsel is particularly well suited to provide such support given that the determination of proper director engagement is essentially a legal analysis.

The Governance Institute thanks Michael W. Peregrine, Partner, McDermott Will & Emery, for contributing this article. He can be reached at mperegrine@mwe.com.



Governance Institute Advisor Spotlight: Ryan Donohue

In the upcoming issues of E-Briefings we are spotlighting each of The Governance Institute advisors to give you a look into their roles, expertise, and experience in the industry. The advisors are healthcare experts, each with their own areas of focus, who work with members to help them solve their governance challenges—everything from developing leadership skills to building a competency-based board to cultivating strategic plans. Our advisory services include:

- Board education and development retreats
- Independent governance review and redesign processes
- BoardCompass® consultation and self-assessment retreats
- Phone and email consultations
- Specialized consultations



In this article we begin with Ryan Donohue, Corporate Director of Program Development at NRC Health, The Governance Institute’s parent company and the largest surveyor of healthcare consumers in the U.S. Watch for future articles in this series to learn more about each of our advisors.

Industry Expertise

Ryan Donohue is a thought leader in the realm of healthcare consumerism. He works to inspire and persuade hospital and health system leaders to embrace and engage in the healthcare consumer.

Over the past decade, Ryan has conducted extensive research on the effects of consumers on the U.S. healthcare industry. He has worked with many top hospitals and health systems, including Trinity Health, Mayo Clinic, Providence Health, and Baylor Scott & White Health, to help them better understand the changes brought on by a more consumer-centric healthcare climate. Ryan continues to research how consumers make decisions and how providers can move to the leading edge in consumer and patient engagement and retention.

Work with The Governance Institute

Ryan has authored several publications on the topics of healthcare consumerism, brand strategy, and effective marketing tactics. He is a regular contributor to *Boardroom Press* and other Governance Institute publications. Ryan wrote two white papers for The Governance Institute: *Considering the Customer: Understanding & Influencing Healthcare’s Newest Change Agent* and *Brand Strategy in Healthcare: The Necessary Considerations for Brand Building in a Shifting Industry*. He also regularly presents Webinars that dig into consumer research and the necessary work needed to create and sustain value among consumers.

He speaks frequently at Governance Institute Leadership Conferences, as well as other healthcare leadership events. This year, he presented “The

Curious Case of the Healthcare Consumer,” which delves into the growing influence of the consumer and the need for hospitals and health systems to focus on becoming consumer-centric organizations. He also presented on “Millennials + Healthcare: A Trustee’s Guide to a Terrifying Future” where he lays out research on this perplexing but important demographic group and how healthcare organizations can build better relationships and strategically engage with millennials.

In addition, Ryan does on-site board retreats and education sessions where he provides insight on:

- Market/region-specific consumer perception information, and implications for board decision making

- Considering the consumer perspective in a strategic context
- Brand research and repositioning/rebranding strategies

For example, Trinity Health had a conference around Dynamic Governance in Challenging Times where Ryan defined what consumers value, discussed creating consumer engagement strategies for the post-reform world, and presented case studies on consumer-led disruption in healthcare. He also presented at Adventist Health’s board retreat, which included representation from its 15 community boards. The organization recently unveiled a new direction for its brand so he discussed consumerism with a focus that supported the updated brand promise and the value of system-wide branding.

For more information or to schedule an advisory service, contact The Governance Institute at info@governanceinstitute.com or call (877) 712-8778. A detailed list of our advisory services can also be found on our Web site at www.governanceinstitute.com/AdvisoryServices.

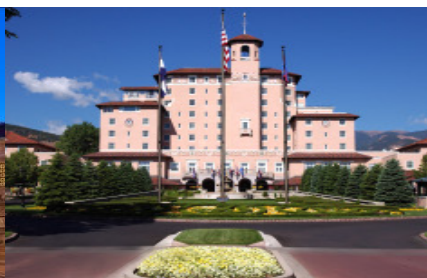


Upcoming Events



[Governance Support Forum](#)

The Westin Copley Place, Boston
Boston, Massachusetts
August 13–15, 2017



[Leadership Conference](#)

The Broadmoor
Colorado Springs, Colorado
September 10–13, 2017



[Leadership Conference](#)

Four Seasons Resort & Club
Dallas at Las Colinas
Dallas, Texas
October 29–November 1, 2017

[Click here](#) to view the complete programs and register for these and other conferences.



New Publications and Resources

[Sustaining Improvement in Your Healthcare System: Using the Baldrige Framework to Manage Tactics](#) (Webinar, May 2017)

[Governance Notes](#) (Governance Support Newsletter, April 2017)

[BoardRoom Press: Volume 28, No. 2](#) (BoardRoom Press, April 2017)

[Community Health, Second Edition](#) (Elements of Governance, March 2017)

[Committee Meetings](#) (Worksheet, March 2017)

[Keeping Boards Engaged between Meetings](#) (Worksheet, March 2017)

To see more Governance Institute resources and publications, visit our [Web site](#).