



## The Board's Role in Transformation

*Adopting the “tight-loose-tight” approach will help clarify the role of governance.*

The Amazon, JPMorgan Chase and Berkshire Hathaway Inc. venture. Mergers. Population health. Retail medicine. Consumerism. Silicon Valley disruptors. Value, not volume. We are all too aware that the future must be “business *not* as usual.” Transformation and innovation are today’s watch words. But what roles does the board play in fostering such transformation?

No one wants to sit on the board of a company that clearly has failed to transform with the times—think Blockbuster, Sears Holdings Corp., Circuit City or numerous other big-box retailers. But, given the intrinsic and unrelenting uncertainties in healthcare, no future strategy is guaranteed to make your organization a winner. For board leaders, like the rest of us, uncertainty creates anxiety. Anxiety can lead to a desire to “control what we can,” which in turn can lead to unproductive micromanagement.

Transformation efforts must be led from the top by a board-senior management dyad. To play their roles in this operational framework effectively, board members must understand and commit to developing an organizational culture that is flexible and adaptive; this involves adopting a “tight-loose-tight” approach to exercising governance. That is, the board should participate in setting a clear

strategic vision for transformation (the first “tight”) while not dictating *how* management should implement that vision (the “loose”) and while appropriately and actively *overseeing* annual CEO expectations and performance (the second “tight”) consistent with the transformation imperative.

### The First “Tight”: Clarify Strategic Intent

What precisely does transformation mean for your hospital or health system? What would a transformed organization look like in five years—in terms of its strategic positioning, value proposition to consumers, brand, partnerships, size and scope of services, organizational structure and culture, and financial performance? How should the organization stay the same? How must it be different?

Instead of proffering vague statements of intent, the board should articulate a short list of six to 10 macro-level, tangible and objective strategic destination metrics by which the organization will measure how well it has achieved its intent. Each of these destination metrics completes the sentence, “By 2023, our organization will have demonstrated/achieved \_\_\_\_\_.” One example might be, “25 percent growth to at least 300,000 unique patients served over the past year.” Another might be,

“the accountable care organization’s achievement of all quality and financial performance objectives outlined in our 2018 board-approved business plan.” Yet another might be, “at least \$45 million in documented cost savings related to clinical redesign by fiscal year 2023.” These strategic destination metrics will help the board clearly understand what transformation will look like, and the metrics then will dovetail into annual CEO and organizational performance expectations for progress toward the longer-term vision.

One approach to ensuring the board is thinking strategically about transformation is to devote more board meeting time to generative discussions, during which the board addresses existential questions such as: What makes our organization relevant or distinctive today, and are these qualities durable? What does our organization value above all else? With how much and what kinds of risk are we comfortable? How must we change to deliver a value proposition that addresses what consumers really value—accessibility, affordability, convenience, service, quality?

Generative thinking challenges assumptions and conventional wisdom; it is courageous and identifies potential market disruptors or “wild cards”; and it

focuses on what the organization would look like once transformed. Hospital and health system boards should incorporate generative discussions into their routine work rather than reserve these for the annual board retreat.

### The “Loose”: Grant Management Flexibility

Our rapidly changing healthcare environment demands flexibility and agility in plan execution. Once the board has approved the overall strategic plan (with tangible strategic metrics) and an associated strategic financial plan, the board should grant management a reasonably wide berth in determining the “hows,” that is, the specific strategies, tactics or actions that will be employed to implement the plan. The board should require frequent updates on progress toward achieving performance metrics. The focus should be on what is accomplished and why. Of course, management should continue to involve the board when necessary; for instance, it should bring business plans to the board for initiatives with a cost above a specified dollar threshold or inform the board quickly when major initiatives need to be reconsidered, redirected or abandoned.

To increase the board’s comfort in conveying to management sufficient leeway on strategies and tactics, it is essential that the board—through its executive compensation committee—use a disciplined process of setting annual CEO performance expectations that are consistent with the long-term transformation imperatives. Additionally, in constructing its meeting agendas and committee charters, the board must balance a focus on today’s performance with what will be required for tomorrow’s success.

### The Second “Tight”: Practice Oversight

Finally, the board should regularly and objectively evaluate management’s ability to transform the organization as envisioned. The board hires the CEO to build and lead a management team capable of simultaneously delivering high performance today and executing the long-term vision. Typically, the CEO is delegated the authority to build his or her own team to accomplish this. Therefore, a primary management oversight tool is the CEO performance evaluation process. This process entails articulating a compensation philosophy; quantifying annual CEO expectations consistent with the board’s long-term vision; regularly monitoring CEO performance and providing feedback at least quarterly; and conducting an annual formal review.

The board should reassess its traditional approaches to CEO performance evaluation to ensure that the current approach not only rewards high performance today but also fosters organizational transformation. For instance, the board may wish to assess the CEO’s ability to lead the organization through industry disruptions, the CEO’s ability to “see around the corners,” or his or her capacity as a systems thinker. Annual CEO performance metrics should tie directly to the five-year goal destination metrics. Focusing primarily on traditional, hospital-centric metrics of today’s success may unintentionally inhibit those transformations that the organization needs.

For an organization to transform itself, it must be led by a dyad composed of talented directors and great managers. For this partnership to

function well, the board needs to embrace the tight-loose-tight approach, and the CEO needs to build and lead a team that can execute effectively and that holds itself accountable to the board for delivering expected outcomes.

The business of transformation can be messy work, so fasten your seatbelts and expect some failures along the way. High-performing organizations are not perfect; rather, they know where they are headed and focus unrelentingly on that destination, understand and are willing to take prudent risks, and are quick to acknowledge what is not working and immediately make effective course corrections. Their boards are demanding while understanding, future oriented while requiring strong current performance, endlessly curious and never satisfied with today’s successes. ▲



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**Editor’s note:** For more information, including guides and board evaluation templates, visit The Governance Institute’s website at [www.governanceinstitute.com](http://www.governanceinstitute.com). In particular, see *The Governance Institute’s CEO Performance Evaluation in the New Healthcare Industry*, Third Edition, Elements of Governance Series, for CEO performance evaluation guidance, and *BoardRoom Press*, “Navigating Strategic Uncertainties: The Board’s Role,” December 2017.