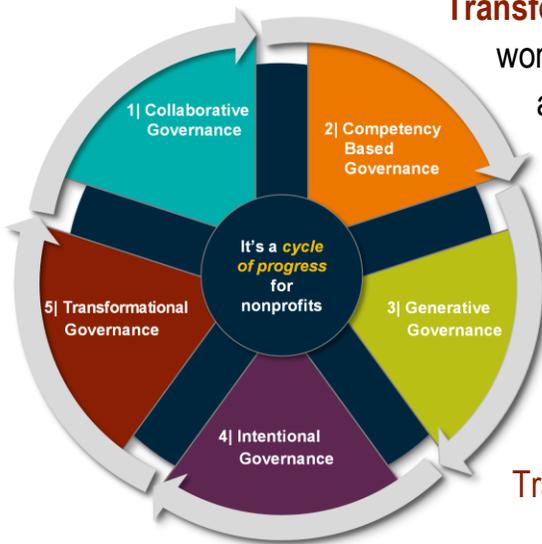# GOVERNANCE INNOVATION: a five-part series

5 | Transformational Governance

**A resource from Integrated Healthcare Strategies,
a division of Gallagher Benefit Services, Inc.**

Integrated Healthcare Strategies
ARTHUR J. GALLAGHER & CO.

Transformational Governance is one of the five new models of board work that is essential for health systems to successfully move into an era of population health and value based payments.

The five models are:

Collaborative Governance
Competency Based Governance
Generative Governance
Intentional Governance
Transformational Governance

This is the fifth of a five part series of white papers on new forms of governance for population health management by integrated health systems and accountable care organizations.

We encourage boards to circulate these white papers and engage in spirited conversations about how these models are being mastered in their board work, and what investments could advance them even further into the high performance governance domain.

This paper seeks to address these four questions:

What is Transformational Governance?

Why is Transformational Governance so important for health systems boards?

How can boards overcome common obstacles to good Transformational Governance?

What are the three most important board actions to accomplish Transformational Governance?

5 | Transformational Governance

What is Transformational Governance?

Transformational governance is a series of strategies and practices that enable governing bodies of public oriented, not-for-profit, and safety net hospitals to strengthen their capacity to create positive conditions within which those who deliver and manage health services for vulnerable populations are more likely to succeed.[1] To transform the governance model, change must be embraced and mastered by the board's leaders and executive team; not just marginal changes in meetings and decision support tools, but fundamental changes in the people, the principles, the processes, and the practices of the boards of trustees / directors / governors.

Great boards are robust, effective social systems and they must pay attention to, work at, and really assess how well they function as teams in order to govern effectively.[2]

The board's role is now recognized as essential in guiding their organizations through the transforming health sector. "Consolidation involving vertical and horizontal integration creates the potential for a change in board composition. This may lead to a change in board dynamics and culture. This change can either nourish or disrupt the functioning of the board. This dynamic needs to be managed carefully so it is a nourishing change. Agreements from all parties on their governance model is a good start. Clear management and governance metrics, including subsidiary boards, should document the roles of decision-making throughout the management and governance structure. This clear accountability for decision-making underlies successful consolidation in other industries as well as health systems."[3]

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[1] These materials derived from Larry Gage writing for The Center for Healthcare Governance of the American Hospital Association

[2] See "Achieving Exceptional Governance" Mary Totten in Trustee April 2007. Further insights are available in the excellent resource text from the AHA's Center for Healthcare Governance, http://www.americangovernance.com/resources/reports/brp/2007/index.shtml

[3] See John Koster, Gary Bigbee and Ram Charan, "The n=1 How the uniqueness of each individual is transforming healthcare" The Academy Press 2014, page 175

The insights shared in this short paper have been distilled from excellent resource documents published by Wiley and ASAE[4] and the American Hospital Association entitled: "Transformational Governance: Best Practices for Public and Nonprofit Hospitals and Health Systems."[5]

These studies remind board leaders and executives that reform of the legal and governance structures by themselves will not guarantee your viability, especially at a time when the number of uninsured and underinsured patients still remains high and sources of funding for population health management are often inadequate and uncertain.

Why is Transformational Governance so important for health systems boards?

Gage observes that at its foundation, transformational governance results when a well-qualified, well-educated board of trustees exercises wise stewardship over an explicit community trust, balancing the mission and success of the organization with the needs of those it serves. Transformational governance takes these expectations to a higher level of effectiveness and efficiency.[6]

Old forms of governance decision making for health are unlikely to be as agile, creative, effective, or efficient as needed for the new era of population health gains in large populations, especially vulnerable populations in high risk communities, employers, and neighborhoods. As a result, traditional board work and structures face the following challenges, and are often ill prepared for these new challenges.[7]

Non-existent and fragmented incentives: Providers are not paid to cooperate with each other, and chronic disease patients require complex care management systems and technologies in non-acute settings, and in organizations not owned by the hospital or accountable care organization.

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[4] Transformational Governance: How Boards Achieve Extraordinary Change, By: Kissman Katha, Publication Date: 2015, see: https://www.asaecenter.org/en/about-us

[5] The author for this reference document is Larry Gage. Larry Gage has practiced law in Washington DC since 1972. He currently serves as Senior Counsel in the Washington D.C. office of the law firm of Alston+Bird LLP. Mr. Gage founded the National Association of Public Hospitals and Health Systems (NAPH) and he served as President of that organization from 1981 to 2011. In 2012, he was honored to receive the Board of Trustees Award of the American Hospital Association. Mr. Gage is a graduate of Harvard College and the Columbia University Law School. He can be reached at Larry.Gage@Alston.com

[6] Gage ibid, page 16

[7] See the good work by the Advisory Board here: https://www.advisory.com/research/care-transformation-center/care-transformation-center-blog/2015/06/global-barriers-to-population-health-management

Misaligned primary care: Licensure and professional control boundaries make it difficult to organize teams of care providers that may not have the right or experience to deliver care navigation that is demanded in population health management.

Spotty information sharing: Even though the EPIC electronic health record has broad market spread, it has not been designed for managing population health, but instead for individual patient healthcare.

Poor patient activation: Aging populations with co-morbidities drive up costs and make it difficult for any single provider to manage all of the care venues needed for success. And patients still lack tools and incentives for behavior change to healthy lifestyles.

How can boards overcome common obstacles to good Transformational Governance?

The journey into transformational governance as a means toward population health management must also overcome these key obstacles:

1. Board leaders may be complacent. Their organization has been working well for over a decade, so why make changes now just because the environment and payment methods are changing?

2. Board leaders and their executive teams are not sure how to design and implement a process of self examination and reform that might shake the fundamental assumptions of board structure, board composition, the processes of decision making for planning, budgeting, quality assurance, and collaboration needed to enhance engagement with other community health organizations.

3. Transformational change is not easy when the change is to be established while also governing the organization (ala the classic dilemma of changing the tires on the car while it is being driven).

4. Immobilization by leaders who are *unwilling to take any steps* because they mistakenly believe you have to make all of the changes all at once, rather then in logical and incremental steps.

Overcoming these obstacles, transformational boards learn that in order to master their basic legal and fiduciary duties, they must attend to six key areas of responsibility: strategic orientation, public accountability, financial oversight, quality assurance, advocacy, and board development.[8]

Strategic Orientation. Board members should be actively involved in shaping the strategic orientation of the health system, including reviewing and approving a strategic plan that is consistent with the health system's purpose and mission. To make informed decisions regarding strategic orientation, board members should keep up to date on the health system's regulatory and competitive environment, including health system trends, opportunities, and threats. Once strategic priorities are set, they should be reassessed regularly and the health system's progress toward those goals monitored regularly.

Public Accountability. Public accountability refers to the responsibility of board members to assess the short- and long-term needs of the community and the health system's patient population and to monitor the fulfillment of these needs. The board may accomplish this by facilitating regular communication with political leaders, the press, relevant organizations, and the public at large. Board members must coordinate these communications within the health system, rather than undertaking them haphazardly or on their own. They also should ensure that the health system is in compliance with all applicable laws and regulations.

Financial Oversight. Financial oversight responsibilities include reviewing and approving financial plans, evaluating organization goals, and ensuring that internal and external independent financial audits are completed on a timely basis. Board members also should be prepared to participate, if needed, in negotiations with the local government and to monitor the health system's investment strategies and otherwise ensure protection of invested assets. It is helpful to have comparative numbers such as historic performance or the performance of comparable organizations, to gauge the health system's financial status.

Quality Assurance. The board must ensure that an effective quality improvement system is in place, with ongoing, systematic assessment resulting in action plans to strengthen performance. A board member's responsibilities include regularly reviewing quality performance data, holding management and clinical staff accountable for patient safety and quality of care, and ensuring that resources are available for these purposes. Quality goals should be linked to performance ratings and incentives and staff privileges. Through continuous quality management, an effective board can decrease the likelihood of adverse outcomes and encourage a culture of quality and patient safety along the full continuum of support for health, from in-home disease prevention and health promotion, to primary care, to hospitals and long-term chronic care.

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[8]   Gage op cit, page 18-19

Advocacy. A governing board has the responsibility to engage in advocacy on behalf of the health system and the population served by the health systems and its programs and facilities. Members of the board should identify proactively both informal and formal opportunities for advocacy. Specific goals should be set with respect to public advocacy, and the role of the board in fund development and philanthropy should be articulated. Board members should have a common understanding of the health system's goals, needs, and key issues. Equally important is the ability of the board to present a unified message. The board or its chair should therefore establish a protocol as to who may speak on behalf of the board and when, both generally and in the context of a specific advocacy agenda.

Board Development. A separate yet critical transformational board responsibility pertains to continuous and innovative board development and self-assessment. Board members should routinely assess the health system's bylaws to identify areas that need improvement. Additionally, mechanisms should be established to evaluate the performance of the board, its committees, and individual board members. Board education to fix performance gaps also should be a regular aspect of the board's activities.

But transformative boards go above and beyond simply being competent or effective. As a group of governance experts that explored characteristics of exceptional boards concluded:

"Moving beyond the basics of governance, as important as those are, creates new opportunities. Exceptional (transformative) boards add significant value to their organizations. Making discernible differences in their advance on mission…Responsible boards are competent stewards. Focusing on fiduciary oversight, they ensure that their organizations comply with the law, act with financial integrity, and operate effectively and ethically. Exceptional (transformative) boards add active engagement and independent decision-making of their oversight function. Their members are open and honest with each other and the chief executive. They passionately challenge and support efforts in pursuit of the mission. The difference between responsible and exceptional boards lies in thoughtfulness and intentionality, action and engagement, knowledge and communication. The difference—the source of power—serves as the multiplier that powers exceptional boards." (BoardSource, 2005).[9]

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[9] See: https://www.boardsource.org/eweb

What are the three most important board actions to accomplish Transformational Governance?

As you surface the concept of **Transformational Governance** within your board and executive team, consider these three key initiatives:

Initiative 1: **Governance Innovation Design Studio** Ask for, and then do an all day, deep dive into a comprehensive analysis of the transformative trends changing the landscape from health care to health gain or population health. Ask probing questions about how the transformation to primary care, population health, customized medicine, and new bundled payments will significantly reform the organizations, relationships, and systems you govern, as well as the structures, processes, and players you use in your many governance activities.

Initiative 2: **Streamline Board Structures & Processes** New ways to govern are more likely found and nurtured when your leadership engages diverse stakeholders to help answer the questions: why are we doing our work this way and how can we do it better? Adopt a culture of enhanced transparency and inclusiveness in how you conduct your board work, while still protecting sensitive personal and strategic moves for the vitality of the organization's mission.

Initiative 3: **Invest in Balanced Scorecards** Group decision-making can be more effective and efficient when there is group clarity on a handful of measurable targets that drive the board's work. Common pillars or targets for performance are often defined within these areas: impact on population's health; gains in market share; availability of cash for organizational vitality; measures of clinical quality outcomes and user satisfaction; and overall market reputation among regional employers and purchasers of health services.

How ready is your board to launch or accelerate its
journey into Transformational Governance?

The Governance & Leadership practice of Integrated Healthcare Strategies uses proven, state-of-the-art governance design, educational programs, and tools to help boards use their time and talents more effectively. Our team of consultants have extensive experience in the assessment of board performance and in the development of strategies and systems to continuously enhance the governance of complex healthcare and hospital systems.

For more than 40 years, Integrated Healthcare Strategies (Gallagher Integrated), a division of Gallagher Benefit Services, Inc., has provided consultative services and people-based solutions to clients across the healthcare spectrum, including community and children's hospitals, academic medical centers, health networks, clinics, and assisted-care providers. Our Gallagher Integrated consultants and nationally recognized thought-leaders help organizations achieve their business goals, by ensuring top talent is attracted, retained and engaged, while measuring and maximizing human and organizational performance. With tailored solutions that extend well beyond single services, Gallagher Integrated offers the knowledge, guidance, and insights that organizations need to not only survive the rapidly changing healthcare environment, but to succeed in it.

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