Supporting Transformation: Clarifying the Roles of Governance and Management

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Every day we hear a new story about a company or technology that has transformed its industry (Uber, Amazon, Google, Netflix). Each of these transformations has left a path of shuttered or severely damaged businesses, or even an entire industry, in its wake.

However, what ultimately led to the demise of these failed businesses—think once-dominant retail chain Sears, which recently filed for bankruptcy protection, or a long list of other beleaguered big-box retailers—is poor management and a lack of effective board oversight. Without a clear vision, strong leadership to execute the strategies to get there, and an effective board oversight process, transformation is unlikely or impossible. Given the unrelenting uncertainties in healthcare, strategy alone does not guarantee a successful future. Continued uncertainty can lead to anxiety, and the desire to exercise control can lead to unproductive micromanagement.

To be successful, the board and senior management must work together to lead transformation efforts from the top of the organization. Board members need to understand and commit to developing an adaptable organizational culture: this involves adopting an approach to exercising governance that is "tight-loose-tight." With this approach, the board sets a clear strategic vision for transformation (the first "tight"), while allowing management latitude in how to implement that vision (the "loose"), and while appropriately and actively overseeing annual CEO expectations and performance (the second "tight") consistent with the organization's transformation imperative.

Key Board Takeaways

- Articulate a short list of six to 10 macro-level, tangible "destination metrics."
- Routinely incorporate time for generative discussion into board meetings.
- Grant management latitude in implementing the strategic plan, while using a disciplined process of setting and monitoring annual CEO performance expectations.
- Reassess your traditional approach to CEO performance evaluation to ensure you are rewarding not only today's high performance but tomorrow's transformation. CEO performance metrics should tie directly to the five-year destination metrics for the organization.
- Transformation is never a rationale for poor financial performance. Hold management accountable for stable—even profitable—financial performance along the way.
- Anticipate some failures but be quick to acknowledge what is not working and make effective course corrections.

The First "Tight": Set Strategic Intent

What might transformation mean for your hospital or health system? What would a transformed organization look like in five years—in terms of its strategic positioning, quality of care and patient satisfaction, value proposition to patients, 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?

Rather than making vague statements about its intentions to change, the board should generate a short list of six to 10 macro-level, concrete, and objective strategic metrics, otherwise known as "destination metrics." Performance against these metrics will allow the organization to measure how well it has achieved its intent. Each destination metric completes the sentence, "By 2023, our organization will have demonstrated/achieved ______." Some examples might be:

- "…25 percent growth to at least 300,000 unique patients served over the past year."
- "…recognition as an IBM Truven Top 100 Hospital."
- "…doubled external research funding for the health system."

Strategic destination metrics such as these will help the board articulate what transformation will look like, and the metrics may then be used to track CEO and organizational performance expectations for progress toward the longer-term vision.

To ensure the board is thinking strategically about transformation, meetings should incorporate more time for generative discussions. Generative thinking is courageous and addresses existential questions about the organization; challenges assumptions and conventional wisdom; identifies potential market disruptors or "wild cards"; and focuses on what the organization would look like once transformed. In a generative discussion, board members might ask:

- What does our organization value above all else?
- What makes our organization unique?
- With how much and what kinds of risk is our organization comfortable?
- How must we change to give our patients what they value—access, affordability, convenience, customer service, quality?

The "Loose": Allow Management Flexibility

Strategic planning in today's changing healthcare environment requires leadership to be flexible and agile in executing the strategic plan. Once the board approves the plan (with tangible strategic metrics) and an associated strategic financial plan, it should allow management leeway to determine the "hows"—that is, the specific strategies and tactics that will be used to implement the plan. The board should require frequent updates on progress toward achieving performance metrics. Of course, the board needs to also ensure that management continues to consult the board when required, for example, for initiatives with a cost above a specified dollar threshold or if major initiatives need to be reconsidered, redirected, or jettisoned.

To hold management accountable as well as to ease any anxiety that may result from granting management latitude to execute the plan, the board should, via its executive compensation committee, set annual CEO performance expectations consistent with the long-term transformation imperatives. At the same time, transformation is never a rationale for poor financial performance. The board must expect stable, profitable performance during transformation. The board also should ensure that its meeting agendas and committee charters balance a focus on current performance with the requirements for future success.

The Second "Tight": Practice Oversight

The second "tight" in this approach is oversight of the transformation process through regular and objective CEO performance evaluation. The board hired the CEO to build and lead a management team that can deliver high performance today while also carrying out the long-term vision. In implementing a robust CEO performance evaluation process, the board articulates its approach to compensation; quantifies annual CEO expectations consistent with the board's long-term vision; monitors CEO performance and provides feedback at least quarterly; and conducts an annual formal review.

To ensure the board rewards both current performance and progress toward transformation, annual CEO performance metrics should tie directly to the five-year goal destination metrics. In addition, the board may choose to assess the CEO's ability to anticipate future obstacles and navigate the organization through periods of disruption. Traditional, hospital-centric metrics may not accurately reflect whether the organization is moving toward transformation.

Transformation requires coordination and mutual respect between gifted directors and managers who understand their unique roles in the process. The board should endorse the notion of tight-loose-tight, allowing the CEO to build and lead a team that can deliver results and holds itself accountable.

Transforming an organization is never easy. To be successful requires being flexible when obstacles inevitably arise and being willing to change course if something is not working. Effective boards set a course for where the organization should go, allow management to navigate there, and regularly assess progress along the way. Using this approach, healthcare organizations can prepare to thrive in a future that may look very different from our current environment.

The Governance Institute thanks Marian C. Jennings, President, M. Jennings Consulting Inc., and Governance Institute Advisor, for contributing this article. She can be reached at mjennings@mjenningsconsulting.com. Portions of this article were first published in the article "The Board's Role in Transformation," which appeared in the May/June 2018 issue of Healthcare Executive.