

GOOD GOVERNANCE CASE STUDY

AN ONLINE SERIES BY THE GOVERNANCE INSTITUTE

Lakewood Health System's Journey towards a Strategic, Engaged Board through Education

FEBRUARY 2020



A SERVICE OF

nrc
HEALTH



The Governance Institute®

The essential resource for governance knowledge and solutions®

1245 Q Street, Lincoln, NE 68508

(877) 712-8778

 GovernanceInstitute.com

 [/The Governance Institute](https://www.linkedin.com/company/the-governance-institute)

 [/thegovinstitute](https://twitter.com/thegovinstitute)

Jona Raasch	Chief Executive Officer
Cynthia Ballow	Vice President, Operations
Kathryn C. Peisert	Managing Editor
Glenn Kramer	Creative Director
Kayla Wagner	Editor
Aliya Flores	Assistant Editor

The Governance Institute is a service of NRC Health. Leading in the field of healthcare governance since 1986, The Governance Institute provides education and information services to hospital and health system boards of directors across the country. For more information about our services, please call toll free at (877) 712-8778, or visit our Web site at GovernanceInstitute.com.

The Governance Institute endeavors to ensure the accuracy of the information it provides to its members. This publication contains data obtained from multiple sources, and The Governance Institute cannot guarantee the accuracy of the information or its analysis in all cases. The Governance Institute is not involved in representation of clinical, legal, accounting, or other professional services. Its publications should not be construed as professional advice based on any specific set of facts or circumstances. Ideas or opinions expressed remain the responsibility of the named author(s). In regards to matters that involve clinical practice and direct patient treatment, members are advised to consult with their medical staffs and senior management, or other appropriate professionals, prior to implementing any changes based on this publication. The Governance Institute is not responsible for any claims or losses that may arise from any errors or omissions in our publications whether caused by The Governance Institute or its sources.

© 2020 The Governance Institute. All rights reserved. Reproduction of this publication in whole or part is expressly forbidden without prior written consent.

Lakewood Health System's Journey towards a Strategic, Engaged Board through Education

Tim Rice, President & CEO
Jim Hofer, System Board Chair
Mary Theurer, District Board Chair



Statement of Interest

Effective board meetings and ongoing board education are two fundamental pieces to put in place to build a high-performing board. Recruiting for specific skills and competencies are important, but as Lakewood Health System in Minnesota has found through its governance improvement journey, ongoing board education, coupled with a recognition that staying strategic is a continuous effort, has allowed them to go from basic to highly effective governance. This, in turn, has benefitted the health system in several ways, including completion of major projects and strategic goals that, according to Lakewood's leaders, would not have been possible had their board members not embarked on this journey towards being a more strategic, engaged board via robust and continuous education.



A Profile of Lakewood Health System, Staples, Minnesota

Since 1936, Lakewood Health System has grown from a single hospital to include an entire spectrum of care focused on helping its patients get well and stay well at every stage of life. The system includes:

- A 25-bed critical access hospital
- A 100-bed care center
- A wide variety of senior housing and home-based services
- Five primary care clinics
- 53 providers comprising of family practice, APCs and specialists
- Pharmacy, gift, and DME retail stores
- Population health and community health initiatives

Lakewood aims to provide care beyond the ordinary in a place that patients can call home. Its team of healthcare professionals work closely with patients to create the exact care experience they are looking for.

Mission, Vision, and Values

Our mission is...to provide quality, personalized healthcare for a lifetime.

Our vision is...to empower health and well-being together.

We value...

- Integrity
- Compassion
- Accountability
- High quality
- Innovation

System and Governance Structure

In 1995, capitation was being pushed in Lakewood's market and the local, independent physician clinic was interested in selling its practice. There were several other parties interested in buying it. "Since we were the local hospital, we put our name in. And in the end, they sold it to us," said Tim Rice, President & CEO. "But that required us to merge a public entity and a for-profit entity."

On March 1, 1997, the hospital and clinic officially merged and became Lakewood Health System. The merger consisted of an affiliation agreement in which the district board transferred the assets, equipment, employees, and third-party contracts over to a new, 501c3 private non-profit corporation called Lakewood Health System.

The district board, which is elected by the public, has two representatives on the system board (which is self-perpetuating) for oversight and to make sure they are effectively managing Lakewood Health System. The structure of the two boards maximizes the benefits of both for the healthcare system. The two boards each play a significant role providing the most effective support and availability of resources and effort to be focused on the access and delivery of exceptional health services to the Staples/Motley area.

"We're partners, we're a team here," said Jim Hofer, system board chair, of the dual-board structure. One benefit of this structure is that it allows them to have physicians on the system board. Out of 12 system board members, there are four physicians; chief executive Tim Rice serves as *ex officio*; the two aforementioned district board members (the district board chair is a standing position on the system board, and then another district board member rotates out as their term is up); and five community members. The community members are limited to three three-year terms.

The Transition: From a "Regular" Board to a Stellar Governing Body

The journey to improve governance processes at Lakewood began about 10 years ago. "We had gotten stuck in a cycle of having our departments present at board meetings, but it was more of a presentation and not much time for follow-up dialogue," said Hofer. The board members had always engaged in board education programs through The Governance Institute, so they would regularly hear suggestions from faculty and read in publications about improvements that could be made in their meeting structure and agendas. Before any steps to change actually took place, board members began thinking differently about how they should be fulfilling their role, based on what they were learning through education.

The boards engaged a consultant early on to delineate the system board's duties versus the district board duties. "There was some confusion, maybe more with the district board, which had been the governing board until we moved to the system structure," explained Mary Theurer, District Board Chair. "[Having clear and distinct roles between the two boards] has really helped us move forward. We can come back to our board and report what's happening at the system meetings so they feel they are a part of it." (See the Appendix for a visual diagram of the two boards' responsibilities.)

Another early step in the journey was to develop a governance committee of the system board, to focus on how the board conducts its work and improve its performance. This committee started with reworking the meeting agenda. It still continues

to help set board meeting agendas today. It was a slow evolution over about a decade to take a more deliberate and critical look at what work was being done, how the board was spending its time, the level of engagement of board members, and finally, how that was affecting the organization's performance.

"The governance committee meetings help us determine what priority topics the system board should be addressing and who we should be hearing from," Hofer explained. "Several months ago, we added the expectation that as part of [management's] presentation, the presenters would need to come up with some items that are of strategic nature or would have implications on our strategy." Questions the board poses to presenters include:

- What are some challenges facing you right now?
- What are you looking at in the future?

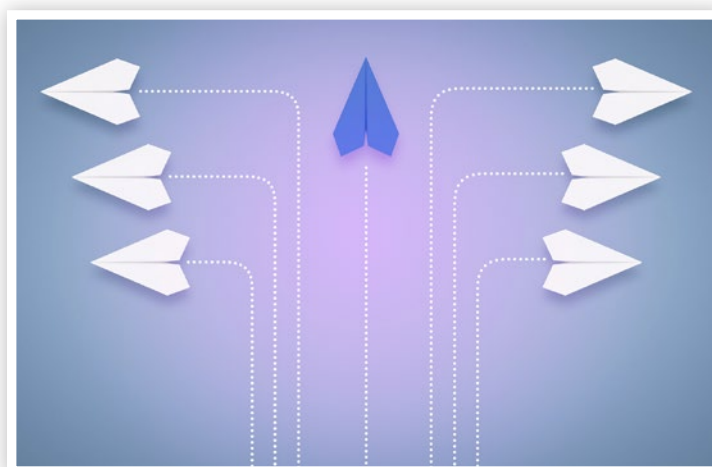
This helps generate discussion among board members as to what their role is in supporting the management team and whether the strategic plan is focusing on the right priorities. Now, the system board spends 75 percent or more of its meeting time discussing strategy. There are always at least two strategic issues on every agenda. They start with reviewing and discussing quality metrics and then move to strategic discussion on other issues.

Now, the system board spends 75 percent or more of its meeting time discussing strategy.

Focus on Strategy

The system engages in strategic planning as a joint effort between the system board, the district board, the management team, and medical staff leaders. The planning team looks annually at the system's mission, vision, and what strategies to prioritize for the coming year. Then, the system board conducts a review every quarter to assess the organization's progress on reaching goals.

When the board moved to using a consent agenda, part of the job of the governance committee was to get beyond the agenda items alone, to how make them strategic in nature and to ensure they are asking the right questions. "I think even now, even at the last meeting, they struggle, and I think every board does,"



said Rice. The other side of the challenge is effective reporting and presenting. Now board members ask for the top five strategic items senior managers are working on. This is placed at the top of the president's report for every board meeting, so the board can look at that information first and ask strategic questions.

"The important point is, the governance committee is continually working on making sure that the meetings are strategic," said Rice. It is an ongoing commitment. This committee is also responsible for facilitating all strategic planning and succession planning, and setting board education requirements.

Board Member Education

The Lakewood board members treat board education as not only a priority, but actively attend educational programs. "With the majority of board members attending, they are all hearing the same message. They hear ideas on how to make board meetings better," said Rice. One thing that may set Lakewood board members apart from others, according to Rice, is "they actually bring it home, and in the governance committee or in full board meetings, we actually try things out. Then we go to more sessions and learn something else new or more, and try those ideas out. We make a point to bring homework home every time we learn something new and try to implement it."

The Minnesota Hospital Association (MHA) has robust training programs for board members (certification is offered but currently voluntary, rather than required by law such as in New Jersey). Lakewood leadership made it a priority for new board members to attend the MHA boot camp half-day program, prior to the system's own trustee training. Additionally, to be elected to an officer position on the board, board members must have completed the state's certification program.

"We make a point to bring homework home every time we learn something new and try to implement it."

—*Tim Rice, President & CEO*

"I'm proud to say we have the largest group of people that have been certified in the state because Tim and the administration really supports us in our education and wants us to be involved," said Theurer. "I think that is a huge piece for us to move strategically, because we don't have barriers and we have open and innovative leadership."

Both boards utilize The Governance Institute's Webinars every month, and lessons from those programs are discussed during board meetings. "When we view Governance Institute Webinars, Tim always makes sure that a leader in that area is also there," Theurer explained. "We talk about what was presented and learned, and how Lakewood should respond to this information based on what's happening in our business. Board members really learn more about the operational side of it, along with how to make sure we don't get in the weeds." These discussions will then filter down to the governance committee to help aid in setting future board meeting agendas.



Case in Brief: Lakewood's Journey to Improve Governance Process and Performance

The Challenge:

Embark on a journey to transform the board from bare basic oversight to strategic-level engagement via robust, ongoing education and transformation.

Actions taken:

- Clarify duties of the system board versus the district board
- Create a governance committee of the system board responsible for developing strategic meeting agendas, facilitating all strategic planning and succession planning, and setting board education requirements
- Implement a robust, ongoing board member education program with up front requirements
- Including educational materials in board packets on the board portal, with the expectation that all board members read the packets prior to the meetings
- Adjusting meeting agendas to spend 75 percent or more on strategy, and asking management to present key strategic questions to the board for consideration

Key Benefits:

- Adding physicians to the board has deepened the board's understanding of clinical issues and appreciation of the work physicians do. Physician board members ask new and different questions, which has translated to improved care, service, and experience.
- Physicians on the board have helped to bridge the relationship between the board and medical staff, further enabling service enhancements and quality improvement.
- A reduction of strategic priorities to five key goals that are manageable, focused, and measurable, means they are more likely to achieve strategic goals and ensure that those goals are the right goals for the organization.
- Achievement of \$22 million debt financing for the recent facility expansion, which required time, engagement, cooperation, and communication on the part of both boards, the administration, and the community.
- Ability to move towards new innovative initiatives such as online scheduling and provider reviews and expanding access to care in other ways such as bringing needed service lines to the area, adding extended hours on weekdays and Saturdays, same-day walk-in clinic options, and e-visits.
- Board education provides the opportunity to both expand their knowledge of skills and competencies that should be recruited in new board members, while at the same time expanding the skills and knowledge of current board members, both around industry trends and implications as well as how to change board processes for high performance at the governance level.
- Future strategic priorities would not be possible to attempt without the boards' taking on this performance improvement journey through education (see below).

Lakewood's Strategic Priorities Going Forward:

- Maintain independence while entering into affiliations and partnerships to be able to provide value-based care and remain fiscally sound
- Pursue growth opportunities in certain service lines through affiliations and partnerships
- Improve access
- Maintain ability to recruit top-notch clinicians as a rural healthcare provider
- Be better positioned for transitioning from fee-for-service to value

Organizational Benefits of Higher-Performing, More Educated Boards

This journey has provided benefits to both boards as well as the organization as a whole, one of which is having physicians on both the system board and governance committee. “Those who are non-providers can learn more about the perspective of the providers,” Rice explained. “And the providers are learning about the business side of it. It’s so interesting to see how both groups evolve. As each party learns more about each other, better appreciation builds on both sides. Then, when you’re making challenging decisions, you’re making better decisions.” Physicians bring a different perspective, which results in questions and comments regarding agenda items and areas of board focus/work that wouldn’t have been raised otherwise. “Out of this comes improved care and service for our patients,” Rice added.

Having physicians on the board has helped bridge relationships with the entire medical staff. For example, one of the system’s rural clinics needed extended physician hours on evenings and weekends. “Not everybody was jumping up and down for joy about wanting to expand hours, which changes things for employees and providers,” Rice said. “But it’s what our customers needed. In time we were able to get that done.”

In addition, the board whittled down the number of strategic priorities from “about a hundred” to five key goals. “The board makes sure that they’re measurable. We also make sure that every quarter we’re reporting our progress on those goals. The whole process of making it manageable, focused, and measurable results in selecting the right priorities of access, quality, and experience as part of the continuous planning process,” Rice added. The mission and vision remain a focus of the planning process as well, so that all pieces of the puzzle fit into those two key aspects of system identity and purpose. Then, to close the loop, this planning process in turn informs future board meeting agendas.

The system completed a new facility in 2006 and just underwent another expansion, for which the board spent three years planning and securing financing and loans. “We had the ability as a district to levy taxes on our constituents. And we’ve held fast in not ever levying,” Theurer said. “To bring those townships and cities to an agreement that we should incur \$22 million more debt was a huge thing. We had to show the benefits, the needs, and how we were going to pay for it. That took both boards and administration and a lot of work to get that accomplished.” Theurer, Hofer, and Rice all agreed that this project would not have been completed without the boards educating themselves, the deep engagement of every board member, and the ability to work together the way they do now.



The following are specific examples of how Lakewood Health has directly benefited from improved board performance over the past decade:

- Days cash on hand have increased from zero with installation of Epic to 200 days.
- The system has not raised rates for six years while still offering salary adjustments and meeting financial goals.
- The system has enjoyed continued growth each year.
- The organization has never levied for operations.
- The medical staff expanded from four physicians to 53 physicians/providers.
- Community members are now competing to be on the board.

“Improved locations make a big difference,” Rice continued. “We went out on the highway for visibility. We’ve been working on access. We went to online scheduling and online provider reviews. So those are big market items that only come about with collaboration and then discussion together.”

Had the boards not embarked on this journey, “I think we would be back in the Dark Ages, as bluntly as that,” said Hofer. “I’ve talked to other trustees from other organizations, and they aren’t encouraged by their CEO to go to [board member education] sessions. We’re not only encouraged—we’re expected to go learn new things and come back and challenge the administration so they keep us at the forefront. We’re a team and we need to work together.”

“After an education session, people will ask if we are doing something, why, or whether it is something we need do. It gives us the background information we need in order to be able to ask the questions that need to be asked.”

—Mary Theurer, District Board Chair

Board Engagement: Why Is it Critical to the Mission?

The disciplined education and engagement process brings “the best of both worlds,” according to Theurer, in that it allows them to both recruit new board members with needed skills and competencies, while at the same time developing all board members to expand their skills and understand how to act in their role in the most effective way.

For board members who can’t or don’t want to travel, education is offered locally via board meetings, Governance Institute Webinars, educational articles made available on the board portal through their membership with The Governance Institute, and on-site sessions. The boards also rely on The Governance Institute to provide specialized resources for them on particular topics the board needs more information about.

The board packets themselves are treated as education tools, complete with a number of articles on current issues facing the healthcare industry. “Just reading the board packet gives you a sense as to what is happening out there and starts the

thinking process as to how it impacts us,” said Hofer. Taking things to the next level, all board members actually read the board packets prior to the meetings. They have iPads they can take home to access agendas and materials anytime via the board portal. Board members can email questions to the chair for the next meeting. “I’ve noticed that people come to the meetings more prepared, especially the district members, because they’ve had this opportunity,” said Theurer. “Before we had the board portal, even though they received the packets in the mail prior to meetings, often board members would open their packets for the first time at the start of the meeting.”

All board members, including those elected on the district board, have grown significantly in their abilities to serve as effective board members.

“Board members’ involvement in education has transformed them. For those who say that it cannot happen is really not fair to board members. It’s like writing them off before they even have a chance.”

—Tim Rice, President & CEO

Several other activities help support the boards’ emphasis on performance improvement. One of these has been a special focus on appointing the right board chair. After every board meeting, each member ranks the effectiveness/quality of the meeting on a five-point scale. If there are any responses of 3 or lower, the board chair and senior leadership discuss how the meetings can improve. Experienced board members help mentor new board members. Both boards engage in a formal board self-assessment and individual assessment process as well.



Lakewood Health System 2019 Strategic Goals

Goal	Measure	YTD Result
Growth: Increase specialty service line volume and expand specialty offerings	Increase specialty services' downstream revenue by 5%	Q3: 11.13% (120% of goal) Q4: 10.65%
People: Workplace of Choice	Increase employee engagement survey results with "I would proudly recommend this organization as a good place to work" to 60%	Baseline: 58.00% Goal: 60.00% (Q4 TBD)
Quality: To be recognized as a Triple Aim leader	<p><i>Cost:</i> Average of the following (each weighted 1/3 and worth 1/3 of the total available): Cost – Total Cost of Care index reduction of 0.02% with a baseline of 1.29% as reported by Health Partners TCOC reports as of Q2 2019.</p> <p><i>Quality:</i> Increase by 3% from 2018 baseline of 80%.</p> <p><i>Experience:</i> In an effort to improve our combined overall experience ranking for all publicly reported service lines, we will raise our average top box score for "likelihood to recommend" by 0.5% from a baseline of 88.7%. Our goal by 2023 is to have reached the 80th percentile as a system.</p>	<p><i>Cumulative weighted calculation of Triple Aim:</i></p> <p>Q3: 1.89 (120% of goal) (Q4 TBD)</p>
Finance: To maintain autonomy and financial viability	Achieve total operating margin of 3% and days cash on hand of 155	Q4: 2.87%
Growth: Pursue profitable growth opportunities and expand reach based on consumer needs	<p>Increase market capture rate by 3% for at least 2 subservice areas via identification of geographic service line gaps:</p> <ul style="list-style-type: none"> • Northeast service area: increase market capture by 3% for oncology • Northeast service area: increase market capture by 3% for ENT • South service area: increase market capture by 3% for oncology • South service area: increase market capture by 3% for GI 	Q3 Cumulative Total Increase: 5.8% (Q4 TBD)

Next Steps on the Journey and Lessons Learned

Lakewood's leaders believe that achieving the strategic priorities the organization is focusing on for the coming years is fully reliant on the way the two boards now conduct their work. "Both boards are committed that we remain independent," said Hofer. "That means we need to have cooperative working relationships with other entities that benefit us. So that's the challenge—how do we keep on top of the Affordable Care Act? What are the different payers allowing for [value-based] payments? We need to remain fiscally sound so that we can pay our bonds."

The system board is looking beyond merger-alternative partnerships to growth opportunities as well. "What services could we be providing, either on our own or in cooperation with another facility in order for us to maintain high quality?," Hofer added. The system is looking at services it needs to bring to the local service area—urology is one example. "We always went through CentraCare in St. Cloud, and they have changed their model as they are no longer able to provide the outreach due to demand in their own community," said Theurer. "We have recruited our own urologist to fill that gap, because our patients like to be here and they shouldn't have to travel an hour and a half for those services." They are also looking at services that potentially need to be closed due to low utilization/need or other market changes.

Further, as a rural health system, recruitment of providers and employees is an ongoing challenge, which means the system needs to not only remain profitable but also to be able to offer competitive wages to attract quality people.

For the board, Hofer wants to improve upon his ability to ensure that every board member has the opportunity to speak their mind at every meeting. "I'm always trying to read the body language of each member. Did I give them a chance to talk? Did they want to talk? If they don't want to talk, how do I engage them in a discussion? Because that will lead to more robust strategic planning."

The culture of the boards and leadership is centered around continuous performance improvement, not just for the organization but for the boards as well. Rice added that the emphasis on education helps board members focus on who they are doing this for at the end of the day—the patients—and the "why." This culture helps to maintain focus on the mission to ensure the quality and experience of care they are seeking to provide. "We don't have all the answers yet," Rice explained. Hofer added, "We are not perfect or walking on water. We have our work cut out for us." This perspective ensures that board members never feel satisfied with the status quo, which can be a challenge for many of today's health systems. "I think that's why we continue to have progress," said Rice. "We never have felt we were there. We're just recognizing that we have to keep working at it and keep going to classes. Because this journey does not end."

"It has taken time to get our board members to buy into it and realize they can be a much better board member by doing this. But it has most definitely paid off. The time and energy you invest in board member education comes back tenfold by benefitting the community."

—Mary Theurer, District Board Chair

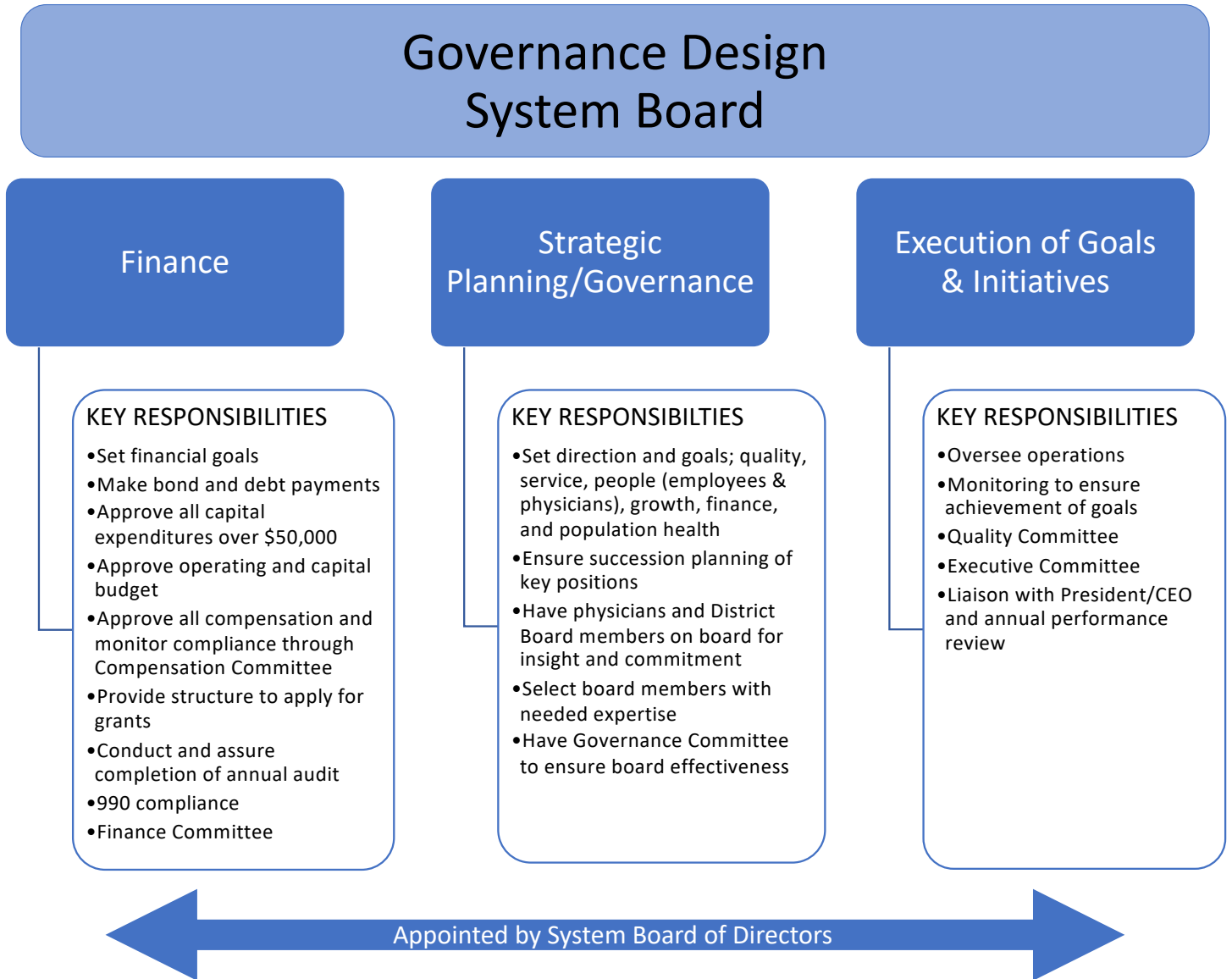
This journey has been important to the physician board members involved as well, who have been able to better understand the governance process and their role in it. Everyone has shown a deep appreciation of physician involvement, getting to know the physicians and hearing their perspective. They have become every bit engaged in the journey of improvement as the rest of the board. "During the last governance committee session, it was one of our physicians who reminded us that we had kind of slipped back into just reporting and needed to get back to more interaction," said Theurer. "And we all agreed, because it is easy to slip back into reporting if you aren't paying attention."

Hofer emphasized that an important way to set about improving a board's culture is to set strong expectations up front for potential and new board members regarding the time commitment, the education requirement, and the expected level of involvement. Provide a picture of the board's culture, so the potential director can determine if they would be a good fit from the start. This has helped Lakewood physician board members in particular, so that they can take on the role just as any other board member would. For Lakewood leaders, this is one way they continue to raise the bar.

Lakewood hasn't been afraid to set that bar high despite national concerns that the role of a healthcare board member is getting harder and more daunting, potentially turning away the most qualified candidates. "In my opinion, it would be better to have no one than to have someone who is not committed to the role and our standards," Rice said in closing. "Having such high standards and expectations has created the opposite effect for our board members. We have to turn people away from the board because people want to be a part of what we are doing. When you stay focused on the 'why' and are committed to doing what it takes to be your best, people want to be a part of that."

Appendix.

Governance Design: Key Responsibilities of the System and District Boards



Governance Design District Board

City & Township Relationships

KEY RESPONSIBILITIES

- Communication of operational activities
- Election and replacement of board members – Canvass Committee
- System Board representatives
- Be an avenue of feedback for district cities and townships

Ownership

KEY RESPONSIBILITIES

- Own property and debt
- Provide access to lower-interest financing
- Provide collateral as a taxing authority
- Be aware of system litigations and non-licensure
- Representation on System Board and Governance and Quality Committees
- Participate in strategic planning meetings
- Involved in key position succession planning
- Executive Committee

Finance

KEY RESPONSIBILITIES

- Approve any new debt or leases over \$350,000
- Be notified of any new debt or leases under \$350,000 but over \$5,000
- Be notified of any non-debt capital purchase, lease, debt payoff, or real estate transaction over \$50,000
- Approve any real estate transaction in which the title is under the District and approves handling of any cash made from sale or purchase of District-owned property
- Decide annually on levy
- Ensure debt payments are made by System Board
- Ensure annual audit provides an unqualified opinion
- Representation on Finance Committee, participation in annual Finance & Personnel meeting, and representation on Compensation Committee

Elected District Board of Directors