



PYALeadership Briefing

Integrated Governance:

*Leading Community Hospitals Through
Payment and Delivery System Reform*



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Recently, Standard & Poor's offered a bleak assessment of the future for community hospitals:

“We believe the impact of healthcare reform is magnified on smaller hospitals compared with their larger peers. Due to their narrower revenue bases, small hospitals have limited options to cope with these pressures. Although these hospitals have focused on appropriate growth strategies and cost-containment efforts, in our view, their smaller service-area economies can only support a certain level of growth, and opportunities to cut costs are increasingly harder to find.”¹

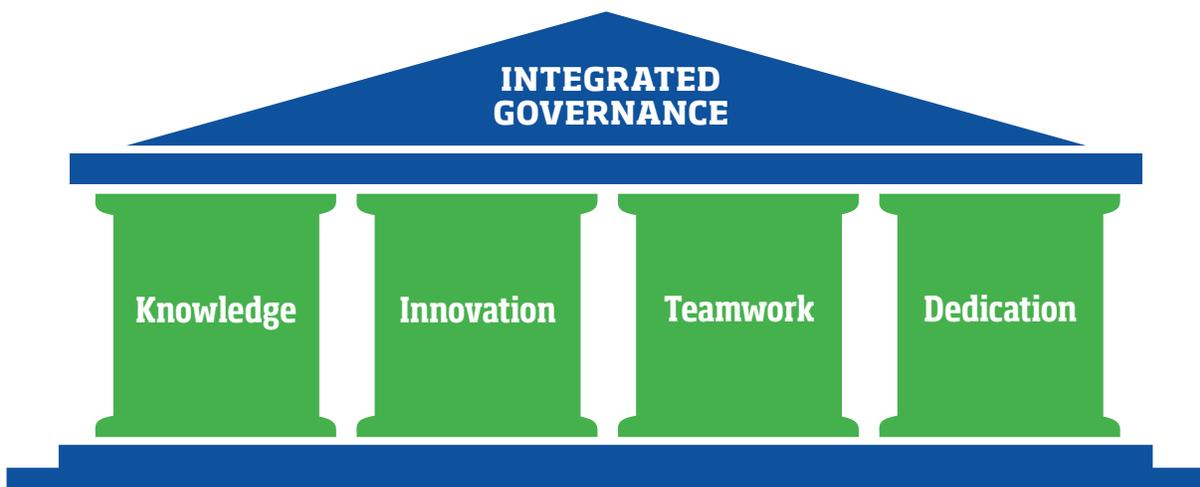
Community hospital trustees now face challenges their predecessors could not have imagined. In the not-so-distant past, trustees could discharge their fiduciary duties by meeting monthly over a meal, listening attentively to a carefully scripted CEO report, approving capital expenditures after asking a handful of questions, and granting privileges for new medical staff members.

Even the traditional definition of “trustee” - as a person that holds or administers property or assets for the benefit of a third party - no longer applies. Now, the governing body's role goes beyond asset preservation. The community and the hospital's administrative staff need all hands on deck - and everyone's concerted best

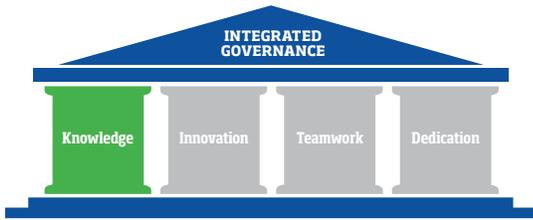
efforts - to survive and thrive in the transformation of our nation's healthcare payment and delivery system.

The fiduciary responsibilities of today's trustees demand an increased level of involvement and a higher level of performance. The relationship between the board and management must be reexamined. In fact, the entire concept of hospital management must be reexamined and a new vision to providing services must be imagined, tested, and embraced.

This transformation in community hospital governance requires trustees to commit to **integrated governance** which values knowledge, innovation, teamwork, and dedication.



¹ Standard & Poor's, U.S. Not-For-Profit Small Hospitals Turn In Mixed 2012 Median Performance Ratios As The Industry Grapples With Change (Oct. 29, 2013).

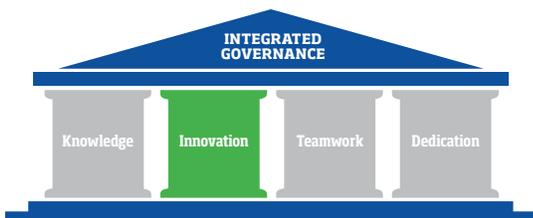


Knowledge

Plain and simple, community hospital trustees cannot be effective unless they are knowledgeable about the evolving healthcare environment and are inquisitive about the challenges it presents and the opportunities it offers. It is no longer acceptable for a hospital administrator to view the board as a necessary evil – a group of well-meaning citizens to be fed carefully prepared talking points for public consumption.

Rather, wise administrators will ensure trustees have appropriate educational opportunities; e.g., presentations and interactive discussions at board meetings; opportunities to attend informative seminars, webinars, conventions, and retreats; and a steady diet of informative reading assignments. Trustees, in turn, must be willing to avail themselves of such opportunities and commit themselves to remaining informed and inquisitive.

With controversy over healthcare reform, it can be difficult to separate political noise from legitimate concerns about the nature and pace of change. It is important for trustees to diligently seek relevant knowledge from a wide spectrum of educational experience, as well as sound advice from reliable resources such as hospital associations, national publications, and trusted counselors, advisors, and peers.



Innovation

For years, “heads in beds” has been the name of the game for hospitals: more patients and more services

means more revenue to support the hospital’s mission. Contemporary and future healthcare models, however, re-shuffle the deck and will reward providers for promoting health, i.e., having fewer “heads in beds.”

How does a hospital continue to thrive in the current fee-for-service environment while simultaneously taking steps to reduce the demand for services? This transition from volume-based to value-based reimbursement requires skills akin to shifting one’s weight from one canoe to another while traveling down a rushing river. One may get wet and suffer a few bruises.

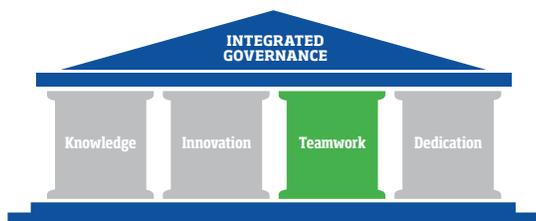
Today, a community hospital dominates and drives its local healthcare market. The hospital holds the most capital and generates the most revenue, and thus controls decision-making. In a value-based system, however, a broader group of clinicians must be included among leadership roles to deliver high-quality care in an efficient manner.

This demands integrated governance - developing and managing collaborative relationships among members of the provider community, rather than merely safeguarding the hospital’s brick-and-mortar assets. The board, in full harness with the hospital’s administrative and medical staff, needs to visualize the hospital’s role in a coordinated care continuum.

To survive this transition – to stay afloat – a community hospital must begin planning and preparing now. The board and staff, as a team, must imagine a totally new business model and oversee its implementation, keeping a firm grasp on the “now,” but embracing the “future.”

That is why governance must be reengineered. Bold innovation can best be imagined and cautiously implemented by having the best talent, both business and clinical, at the strategy development table. Business and administrative leaders on the board must develop a keen appreciation of the impact business concerns have in care delivery. Clinicians, who are cognizant of the business challenges of pursuing any innovative strategy, must be willing to implement and test strategies.

Integrated governance, empowered by a diverse board, managed by enlightened executives, and deployed through engaged clinicians, has the best chance to lead the hospital through the turbulence of transition.



Teamwork

Well-informed trustees and engaged physicians, leveraging their individual backgrounds and experience, are welcome teammates for hospital administration as it confronts the challenges facing the community hospital.

As any coach will attest, it takes the right balance of skills to build a winning team. The hospital's existing governance structure must be reexamined and restructured to be capable of meeting the challenges of the **transforming healthcare environment**.

First, the composition of the team needs to be defined. Rich ideas emerge from the diverse perspectives of well-informed participants in the debate. Because the board represents the breadth of the community, the board should reflect the diversity of the community – age, gender, race, special skills and expertise, and maybe even political ideology.

As the board reexamines itself, it may have to confront the harsh reality that its composition fails the diversity test. It will require selfless decisions among those on the board to assure the board achieves the balance required. Sometimes it will require a change in bylaws or other corporate documents to allow the rebalancing to occur. Governmental hospitals may have the added burden of maneuvering within statutory requirements to establish the diversity desired.

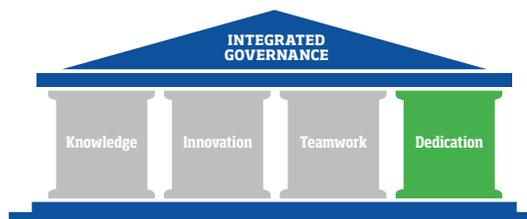
The board will likely have to plan for a transition over time to assure the right mix of talent for integrated governance. Trustees, with administration's full support,

will need to define the proper mix of expertise and demographic representation.

One critical issue to address is proper physician representation on the board. In addition to elected medical staff leadership, the skills and perspective of unelected physician leaders will prove valuable. Second, the board's bench strength will need to be expanded.

During the transition to an appropriately diverse board structure, other resources with the necessary skills and talents can be engaged to supplement the official board structure. While the board retains the ultimate governance authority for the hospital, special expertise can be engaged through a robust advisory committee structure that invites a wide range of talents into the board room. Consultants and advisors can be equally important as the board seeks to expand its knowledge base and create the vision for the hospital's success.

In fact, when the situation demands a full court press, forming new permanent committees to supplement the board's resources is prudent. Committees dedicated to dealing with new challenges (e.g., network contracting, quality improvement and quality assurance, clinical integration, informatics and technology) to supplement the work of the finance, compliance, and audit committees, will prove essential in an emerging value-based hospital reimbursement world.



Dedication

For integrated governance to take hold, board and administrative leadership must invite all members of the team to an open governance table for deliberation of the common task before them. Leadership must unabashedly demand each team member's dedication to the challenge before them and be brave enough to respectfully excuse those from the table who are reticent to commit.

The task before the team demands nothing short of full commitment to the team and to the common cause of assuring the survival of the community hospital. It demands knowledgeable teammates who are willing to own the problem and the solution and are willing to share the acclaim, and the blame, for the decisions they make.

Creative and rewarding board processes encourage ideas first and value judgments later, enforce common courtesy, demands mutual respect, and allows for robust debate. This approach generally produces more sound decisions and builds trust among participants. Transparent and energetic discussions which build on the unique capabilities of those at the governance table synergistically generate better direction for management and solutions for the hospital.

The art of listening seems to be getting trampled by partisanship and ideology in today's environment. Board and administrative leadership set the governance agenda and assure resources are made available. They also foster the atmosphere which honors debate and elicits the best ideas from the honest and transparent discussion.

Often, competing interests emerge that must be rationalized for the benefit of the entire organization. Creative leaders are able to hear those competing concerns and, through honest discussion in a trust environment, develop compromises that lead to collaborative solutions.

A trust environment recognizes that each opinion must be honored, that each participant deserves to be heard, that collaboration produces creative solutions, and that the failure to collaborate dooms the entire enterprise - all lose unless all succeed. Discussions may be extremely difficult, tempers may flair. But in a truly trusting environment which recognizes that the board, hospital administration, and physicians are in the life raft together, these participants in governance will continue to struggle in the discussion until a collaborative solution is developed.

It's an old axiom - trust must be given to be received. When consensus is realized through vigorous and honest discussions, the decision becomes more widely accepted because each member of the decision and implementation team "owns" the decision. Each member of the team knows he or she has been given a fair opportunity to influence the ultimate decision. It is truly a group decision for which all are accountable.

Final Thoughts

The elements that are needed to create a successful governance structure for a hospital are not unlike the elements needed to create a successful orchestra. The sounds of a beautiful symphony emerge when diverse talents come together, develop a common understanding of the piece before them, and dedicate themselves to collaboratively producing the harmony that results from their common effort. Certainly there is a leader, but the supporting cast makes the music.

In the case of the modern community hospital in a dramatically volatile regulatory and economic environment, new and trusting collaborations must be embraced. No longer is it prudent for hospitals to compete with their medical staff for the same healthcare dollar. No longer can the administration treat the board as an intrusion on its flexibility. No longer can the individual participants in the healthcare delivery system go it alone.

Success will come through integrated governance - knowledgeable administrators, community leaders, medical staff leaders, and diverse experts working in harmony for the common goal of assuring the community hospital finds its role in the emerging healthcare marketplace. Success will emerge when these diverse individuals commit themselves to that common cause.

The demands on hospital administrators, trustees, and medical staff physicians have never been greater; nor have the rewards for service to community. It remains a great honor to be recognized as a servant leader in the community.

Let's talk about how PYA experts can help inform this dialogue in your board room. Our team can perform governance effectiveness reviews, provide board education on governance issues, and design and implement more effective board structures. Together, we can roll up our sleeves and get to work.

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You can learn more about PYA's integrated governance-related services by visiting our [website](#).

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