

Trustee Insights

TRANSFORMING GOVERNANCE



Strategic Transformation for Health Care Systems Post-COVID-19

Four action-oriented strategies can be key

BY JAMES LANGABEER

Many general acute care hospitals and integrated health systems are struggling with another tumultuous year. Despite strong consumer spending following the pandemic, bond markets have recovered and created higher debt repayments for those with outstanding liabilities. For those who borrowed more in recent years,

this has increased their overall debt service ratios, which brings margins down. Meanwhile, the equity stock markets are down, creating lower investment income, which has often historically propped up overall profitability for most organizations. Government subsidies offered during the pandemic have also been phased out. Couple all of this with stronger negotiation tactics from payers, and the net result is that organizations are left to figure out how to make positive operational margins. Hospitals and health systems have long had diffi-

culty navigating financial challenges, with well over 50% of hospitals facing negative operating margins each year without investment income and philanthropy.

The unfortunate result is that some hospitals could fail, and boards of directors will be forced to make some difficult choices. How can board trustees best support their facility's transformation to better financial performance?

Turnaround or Transformation

Directors will first need to consider whether they need a turnaround or a full-fledged transformation. What is the difference? Technically, a turnaround is more of a financial overhaul, which attempts to reverse poor financial performance and bring an organization back from financial collapse. Turnarounds typically emphasize cost-cutting measures, like reductions in workforce or clinic and service line closures. Or they can focus on supply chain efficiencies in purchasing, along with implementing tight controls around spending. Turnarounds are aligned with leaders who are hands-on and financially focused.

On the other hand, a transformation is a type of strategic adaptation that focuses on creating a different business model or a new way of doing business. Transformations require strategists, visionary leaders and communicators. Both of these types of strategic change are import-

ant and have a role based on the organization's performance outlook.

Trustees must work strategically with their CEO to identify the right form of adaptation to deploy. Strategy consultants can also help to examine market potential, financial trends and strategic performance to recommend a different approach. A thorough strategic diagnosis is necessary to ensure your board understands the organization's position. If a turnaround or transformation is necessary, start with four action-oriented strategies at the board level:

- Reexamine and shift your business and market strategy.
- Identify gaps and bolster your core leadership team.
- Develop performance management capacity.
- Create an actionable board agenda.

Create a Focus on Strategy

The trustee's primary role is to establish strategic priorities and maintain focus. One strategic priority must be to emphasize and spend adequate time discussing the organization's competitive business strategy at board meetings. Many years ago, hospitals could open a location, offer core services, negotiate decent reimbursement rates and minimally break even financially, but that is no longer the case. There needs to be a clearer definition of the deployed strategy. Strategy defines how the organization intends to compete and who it intends to serve. It includes relationships and partnerships that may include nearby medical schools, ambulatory clinics or non-affiliated health systems. When you define

your organization's strategy, test it by seeing if the path is like other hospitals or different. If it is the same, spend more time outlining your strategy. Strategy is not the mission or vision, which are often static and boilerplate. Strategy is change and defines where you are headed and how you intend to get there. Outlining specific goals and performance metrics provides measurable road markers to see if you are making strides toward the strategy. Trustees need to carefully assess the strategy, bring in strategic consultants or experts, spend time exploring options and support the CEO's transformation.

Identify Gaps and Bolster Senior Leadership Teams

Another core role of the board is to assess the CEO's capabilities and fit for the position. As the role may transition from stable to more turbulent, requiring a turnaround or transformation, the board needs to reexamine the CEO and the leadership team to be sure you still have the right people in the senior leadership positions or if augmentation of the team is necessary.

This is not to say that trustees should terminate their leaders, but rather seek to identify if there are gaps and how those gaps can be filled by augmenting the leadership in place. It is vital to ensure that your CEO and leadership team are not "hands off" during critical times. While turnarounds require constant monitoring of operations and financials, transformations require a different kind of leader — one that can help set strategy, identify new paths, find new partners and create

different business models. From the trustee's perspective, there should be a higher emphasis placed on both strategy and operations.

Develop Performance Management Capacity

A third area in which boards can play a role is encouraging and requesting routine updates on performance management. Performance management focuses on total organizational health, including financial resiliency, workplace culture, patient satisfaction, employee turnover, vendor performance, and quality and brand metrics. Performance management goes beyond assessing the financials or executive dashboards but needs to examine the types of performance programs that are in place to improve and transform care. Executives at some of the leading health care organizations manage portfolios of quality improvement projects throughout the system. Organizational performance improvement projects should be tracked using a methodological system — such as Lean, Six Sigma or Plan-Do-Check-Act — with their milestones and deliverables. Specific to the turnaround or transformation, performance management should also focus on the value that has been generated from the new activities implemented or those eliminated.

Create an Actionable Board Agenda

How can trustees create actionable agendas while operating at the strategic level and without boots on the ground? There are several core

functions the board should monitor. These include six “C” components which are, in essence, the duty of the board.

- Board composition.
- Board charge (or board agenda).
- Level of control to exert on certain areas.
 - Types of communication with the CEO and senior leadership team.
 - Consistency of updates on important topics including regular financial updates.
 - Strategic contributions on their organization.

As boards master each of these six areas, they will be more skilled at governance and likely more effective in their strategic oversight. In addition, trustees can start by requiring that these topics come up

on the board docket. Also, during budget sessions, money should be set aside in the annual budget for investing in creating or upgrading your performance improvement programs and other initiatives. Finally, boards can require regular updates on the value created from this transformation or turnaround. The value should be measured not only in financial terms but in market performance, shareholder performance and internal human resources.

Summary

Hospital board directors play a pivotal role in steering organizations during troubled times. Without being directly involved on the hospital floors, boards can still play a role in their strategic decision making by

creating a focus on strategy, reassessing senior executive capabilities, creating resources and time for discussions around performance management capacity and developing an actionable board agenda. These four things together can ensure that governance and leadership are aligned and focused on the same objectives during times of financial distress.

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