AMGA Council of Attorneys
Corporate Governance

Northwest Permanente P.C.

Molly Burns Herrmann
Vice President, General Counsel
Corporate Compliance Officer
HIPAA Privacy and Security Officer

Office of Legal Affairs
NORTHWEST PERMANENTE, PC
Overview of NWP Work on Corporate Governance

I. Assessment by External Experts

II. Observations, Evidence-Based Analysis, Recommendations

III. Leadership Team Discourse

IV. Board Charge to Committees to Work Recommendations

V. Up-Down with Shareholders and Stakeholders

VI. Governance Changes
Assessments and Observations

• Using the analog of an employee-led organization was illuminating

• Evidence-Based & Comparators are effective with professionals, especially physicians

• Convinced, committed leaders have to create the vision and champion the work

• Need to reveal and expect intellectual honesty about hidden commitments and constituency-based orientation

• “Be the change you want to be”

• Align all of the clinicians

**Theory**
- Reduced staff turnover
- Increased productivity
- Increased profitability
- Greater resilience

**Reality**
- Reduced staff turnover
- No productivity benefit
- Reduced profitability
- On par resilience
Align Decisions and Information

Decision Rights

Information
Common Dysfunctions of Employee-Led Firms

- Siren call to “cash out”
- Entrenched BoD and Fiduciary
- “Pseudo-voice” phenomenon
- Nebulous leadership roles
- Unofficial “inner group” of influencers
- Inexperienced leadership
- Stalled democracy
Information in a team doesn't fall from a tree.
The leader must shake the tree to make the information fall.
COLLABORATOR
Strategic barriers for collaboration?

**Goal asymmetry**

**Positions**
- So, what do you think?
- I agree because A,B,C
- I disagree because X,Y,Z
- We should consider ___
- I don’t care

**Interests**
- Wants to make a decision today
- His group stands to benefit
- Afraid of impact on his dept
- Dislikes proposed technology
- Wants to get out of this meeting

**Goals**
- Drive collective success
- Grow the brand
- Preserve my team
- More flexible technology
- Indifferent

Preserve my team
I agree because A,B,C
Afraid of impact on his dept
Dislikes proposed technology
Wants to get out of this meeting

Proprietary/Business Sensitive
Summary

• NWP faces a number of issues:
  • Strategic direction
  • Operational challenges
  • Leadership turnover
  • Physician concerns

• Root causes:
  • Governance paradigm
  • Board-management roles
  • Mutually reinforcing “doom loop”

• Some recommendations:
  • Structural changes in governance
  • Streamlining role of board-management
  • Strategy development process
Healthcare moving towards systems; independent physician practice model rapidly disappearing

With changing ownership, physicians implicitly adopting the more “corporate” governance model of integrated delivery systems

Source: MGMA Annual "Physician Placement Starting Salary Survey", Recon Strategy analysis

Proprietary/Business Sensitive
Link between governance characteristics, governance effectiveness and organizational performance

**Structures and competency**
- Composition
- Structure
- Characteristics

**Roles**
- Mission / Strategy
- CEO oversight
- Self monitoring

**Dynamics and processes**
- Behavioral norms
- Decision-making
- Transparency

**Effective governance**

**Outputs / Performance**
High performers have stronger governance (Szekendi, Pribyl 2014)

Governance assessment scores for 58 AMCs stratified by performance quartile (16 total possible points)

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Average Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom</td>
<td>7.4</td>
</tr>
<tr>
<td>Middle</td>
<td>9.9</td>
</tr>
<tr>
<td>Top</td>
<td>10.5</td>
</tr>
</tbody>
</table>

- **Structure / competency**: board member competency
- **Roles**: organization performance monitoring
- **Dynamics / processes**: Board performance evaluation

Note: Categories of governance assessment which had no statistically significant difference (chiefly structural) not shown.
Key differentiators of high performing AMC governance (Szekendi, Prybil 2014)

<table>
<thead>
<tr>
<th>Governance performance category</th>
<th>Key findings (percentages compare high vs. low performing quartiles)</th>
</tr>
</thead>
</table>
| Structure and competency        | • Systematically define needs for expertise among Board members and recruit new members to meet them (94% vs. 44%)  
                                 | • Invest in ongoing Board member education (88% vs. 22%)  
                                 | • Have a standing committee with oversight of board education and development programs (59% vs 22%)  
                                 | • Have at least 1 nurse as a voting member (45% vs 11%) |
| Roles                           | • Board regularly receives written reports on performance regarding quality of patient care (94% vs. 78%)  
                                 | • Regularly hear stories about “real patient experiences” (82% vs 54%)  
                                 | • Prioritize long range strategic issues vs. operational issues. |
| Dynamics and processes          | • Key board governance processes regularly reviewed for ways to improve them (100% vs 56%)  
                                 | • Board goes through a formal self assessment process every 1--2 years (59% vs. 22%) |

* = Percentage not provided in article
High performers have constructive behavioral dynamics (Kane and Clark, 2009)

% members agreeing

Board behavior dynamics among non-profit hospital systems
Result of board member interviews

Open and clear decision-making process
All points of view weighed before decision
Everyone contributes knowledge
Members comfortable raising concerns
Members have strong opinions and stick to them
Frequent disagreements among members
Key decisions "pre-made" before meeting

<table>
<thead>
<tr>
<th></th>
<th>Low performers</th>
<th>High performers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open and clear decision-making process</td>
<td>30%</td>
<td>94%</td>
</tr>
<tr>
<td>All points of view weighed before decision</td>
<td>35%</td>
<td>94%</td>
</tr>
<tr>
<td>Everyone contributes knowledge</td>
<td>60%</td>
<td>89%</td>
</tr>
<tr>
<td>Members comfortable raising concerns</td>
<td>45%</td>
<td>89%</td>
</tr>
<tr>
<td>Members have strong opinions and stick to them</td>
<td>55%</td>
<td>75%</td>
</tr>
<tr>
<td>Frequent disagreements among members</td>
<td>65%</td>
<td>14%</td>
</tr>
<tr>
<td>Key decisions &quot;pre-made&quot; before meeting</td>
<td>75%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Kane, Clark et al “Internal processes and behavioral dynamics of hospital boards” Health Care Management Review 2009, Table 6
Recalibrating the role of professional management?

• I don’t control my destiny
• I don’t have the authority to make decisions
• I don’t even know who has the authority to make decisions
Overcoming disempowerment: Framework vs. Freedom

<table>
<thead>
<tr>
<th>Framework</th>
<th>Regimented structure</th>
<th>Freedom within a framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>McDonald's</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Google</td>
<td>Adhocrati8c structure</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Freedom</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td></td>
<td></td>
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Proprietary/Business Sensitive
Do most healthcare organizations have a more inclusive strategic planning process than NWP?

**Participation of stakeholders in healthcare strategic planning**

**Results of a 2011 survey**

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>None</th>
<th>Limited</th>
<th>Moderate</th>
<th>Considerable</th>
<th>Extensive</th>
<th>Unsure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board members</td>
<td>5%</td>
<td>20%</td>
<td>27%</td>
<td>26%</td>
<td><strong>18%</strong></td>
<td>3%</td>
</tr>
<tr>
<td>Senior management</td>
<td>0%</td>
<td>2%</td>
<td>7%</td>
<td>26%</td>
<td>64%</td>
<td>0%</td>
</tr>
<tr>
<td>Middle management</td>
<td>5%</td>
<td>21%</td>
<td>38%</td>
<td>29%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Physicians</td>
<td>3%</td>
<td>19%</td>
<td>35%</td>
<td>30%</td>
<td>12%</td>
<td>1%</td>
</tr>
<tr>
<td>Other clinicians</td>
<td>9%</td>
<td>35%</td>
<td>33%</td>
<td>17%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Community</td>
<td>31%</td>
<td>39%</td>
<td>18%</td>
<td>8%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>Customers / patients</td>
<td><strong>38%</strong></td>
<td>39%</td>
<td>14%</td>
<td>4%</td>
<td>1%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Potential benefits of a more inclusive strategic planning approach

<table>
<thead>
<tr>
<th>For quality of strategic planning</th>
<th>For stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Richer scans of the environment and broader input on issues</td>
<td>• Direct engagement with strategic constraints</td>
</tr>
<tr>
<td>• More creativity and options for pursuing opportunities</td>
<td>• Opportunity to offer input and see how compromises across constraints were arrived at and how strategies were prioritized</td>
</tr>
<tr>
<td>• Greater buy-in across the organization</td>
<td>• Understanding of the framework for specific major business initiatives</td>
</tr>
<tr>
<td></td>
<td>• Understanding of the goals and metrics which the board is holding itself accountable</td>
</tr>
</tbody>
</table>
Conclusions

• Low hanging fruit around governance
• Underlying governance, some of the key issues are lack of trust and alignment in the organization
• Structure cannot build trust... but it may give you time to build the alignment that leads to trust
• A broadly inclusive strategic planning process can help build transparency and alignment...
• ...And, by serving as a basis for measuring performance and drive accountability, help to build broader trust
LEADERSHIP IMPERATIVE #1

Raising Aspirations

• The key to success is raising your standards above those of anyone around you

Bannister
Miracle Mile

Kerri Strug
Second Vault
EXERCISE/INTROSPECTION: HOW DO YOU THINK OF YOUR JOB?

**JOB**
(EMPHASIS ON MAXIMIZING ECONOMIC BENEFIT)

**CAREER**
(FOCUS ON YOUR PROGRESSION IN YOUR CAREER THAT INCLUDES MULTIFACETED REWARDS INCLUDING STATUS, POSITION, POWER, AND ECONOMIC REWARDS.)

**CALLING**
(WORK IS MEANINGFUL AND INTRINSICALLY FULFILLING AND IS VIEWED IN TERMS THAT TRANSCEND PERSONAL ECONOMIC BENEFIT)