LEADING A TRANSFORMATION IN HEALTH CARE

A Guide for CEOs

Summer/Fall 2017

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Introduction

For many healthcare CEOs these days, maintaining the status quo is the equivalent of organizational suicide.

The context they have to deal with is jam packed with priority issues: an unpredictable regulatory environment; patients and health insurance customers becoming increasingly informed, worried, and discriminating; a shift in payment models to reward value vs. volume; new technologies and data analytics driving a re-invention of care models; physicians and health care professionals being asked to do even more with less; and the unrelenting need to partner or be left behind.

So, CEOs have no choice but to drive major changes in their strategies and organizations in order for their companies to survive, and if they do it effectively, to thrive.

As we reflect on our experience with health care clients over the past year and look toward a continuously evolving future for the health care industry, we see several strategic imperatives that are likely to continue:

- Drive growth by being agile in a constantly changing context
- Foster an environment of innovation and change
- Understand and improve the health of patients and communities
- Leverage technology to change the way care is managed and delivered
- Find and manage great partnerships, collaborations and mergers

For us, an overarching theme running through all of these imperatives is the need to be **supremely capable at leading change**.

Not surprisingly, as we have worked with healthcare company boards who are looking to hire or develop a new CEO, the selection criteria that inevitably makes it into the "must have" list is the ability **to drive and lead change**.

So...as a health care company CEO, what will it take for you to successfully transform your organization to allow your business to thrive in this challenging environment?

GUIDELINES FOR LEADING A TRANSFORMATION

Our experience in working with large health care companies suggests that there are five guiding principles for successfully planning and leading strategic transformations.

1 **Assemble and develop an executive team that can deliver**

Arguably, your first and most important task in driving a successful transformation is to assemble and develop a team of executives who can help you pull it off. Many transformations never get off the ground or stall because the CEO's team lacks the required leadership capabilities and skill sets, or unaddressed conflicts or dysfunction within the team derails progress. So, before getting too far down the road with a transformation…

a. Get the right people on your team. Ask yourself tough questions about current team members' technical and leadership capabilities:

- Can my Chief Strategy Officer help us find, analyze and construct business partnerships that will help us gain competitive advantage?
- Can my Chief Medical Officer engage and align disparate networks of physicians within and outside of our system on a common direction?
- Does our Chief Nurse Executive have the ability to partner with our CMO and leadership teams within facilities to drive major changes in our care model?
- What position on my team should own Patient/Member experience, and do we have someone with the skill set to lead it?
- Are all team members willing and able to "break glass;" implement changes in structure, processes, and people; and manage the inevitable resistance to change?
- Do these individuals provide a complimentary set of skills that we need, and can they work together effectively as an enterprise executive team?

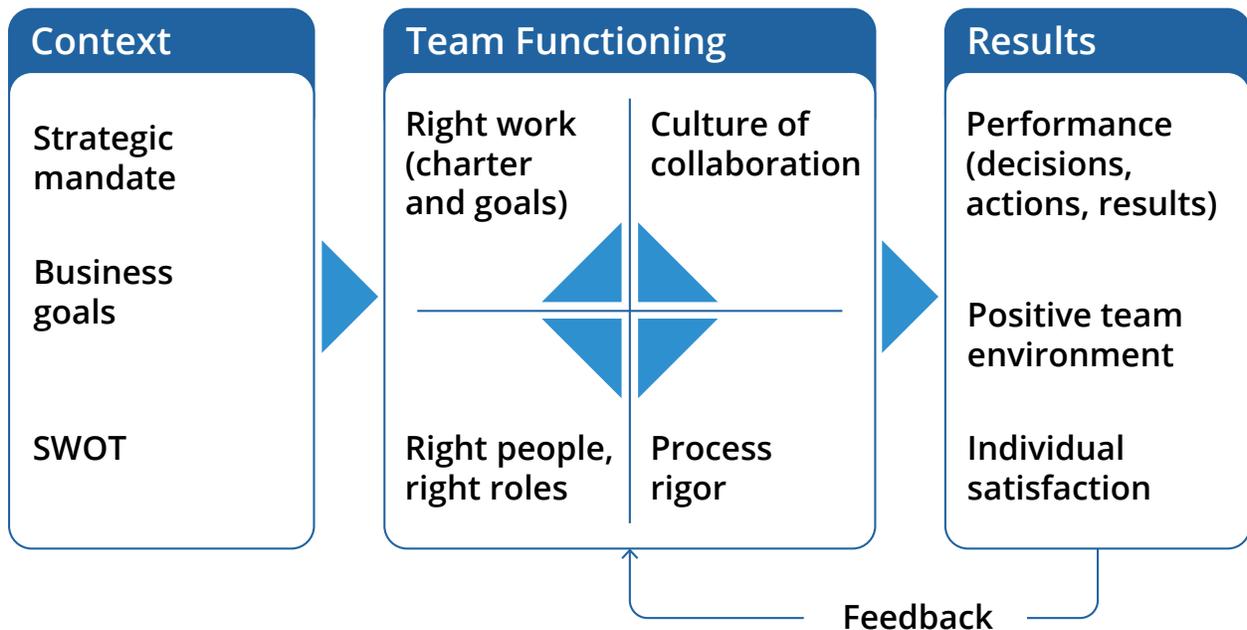While it may feel easier and quicker to "just get on with it" using the team that you've got, it may actually slow you down over the long haul. Conversely, spending a little time at the beginning to define the right positions for your team, assessing incumbents, making difficult changes where needed, and providing developmental support for team members will help you drive faster and more sustainable results.

b. Get the team to work together effectively. Health care businesses are becoming "patchwork" organizations, often made up of previously independent units – for example former competitors who have merged or been acquired, physician networks that have come together within one system, health plans and provider businesses uniting or being established to deliver an integrated offering, or joint ventures created to expand growth.

The increasing complexity of health care companies has created greater demands on CEOs to align what is often a diverse group of executives, and get them to work together as an interdependent and cohesive team. CEOs who invest the time to define and regularly assess and adjust how their teams work together deliver better and faster results.

Below is a framework for executive team effectiveness that can help you guide your team's development.

Framework for Executive Team Effectiveness

Context	Team Functioning		Results
Strategic mandate	Right work (charter and goals)	Culture of collaboration	Performance (decisions, actions, results)
Business goals			Positive team environment
SWOT	Right people, right roles	Process rigor	Individual satisfaction

Feedback

Start by being clear about the "value added work" of your team, meaning those leadership tasks that only an executive team, and no other group or individual, can do. Then, design the team's overall "operating model," including team roles / expectations; meeting structures / processes; guidelines for collaboration; and methods for getting feedback and continuously improving the team's effectiveness.

While that approach will help you lay the foundation for team effectiveness, don't leave it at that. Teams develop not by doing team-building exercises at off-sites. They develop by doing "real" work together, observing how they are doing, and making adjustments to improve their team effectiveness as they are doing that work. So... build in mechanisms to assess and adjust team effectiveness into the ongoing work of your team (e.g., build process checks and "real time feedback" into team agendas; assign process monitors; implement brief quarterly surveys on team effectiveness).

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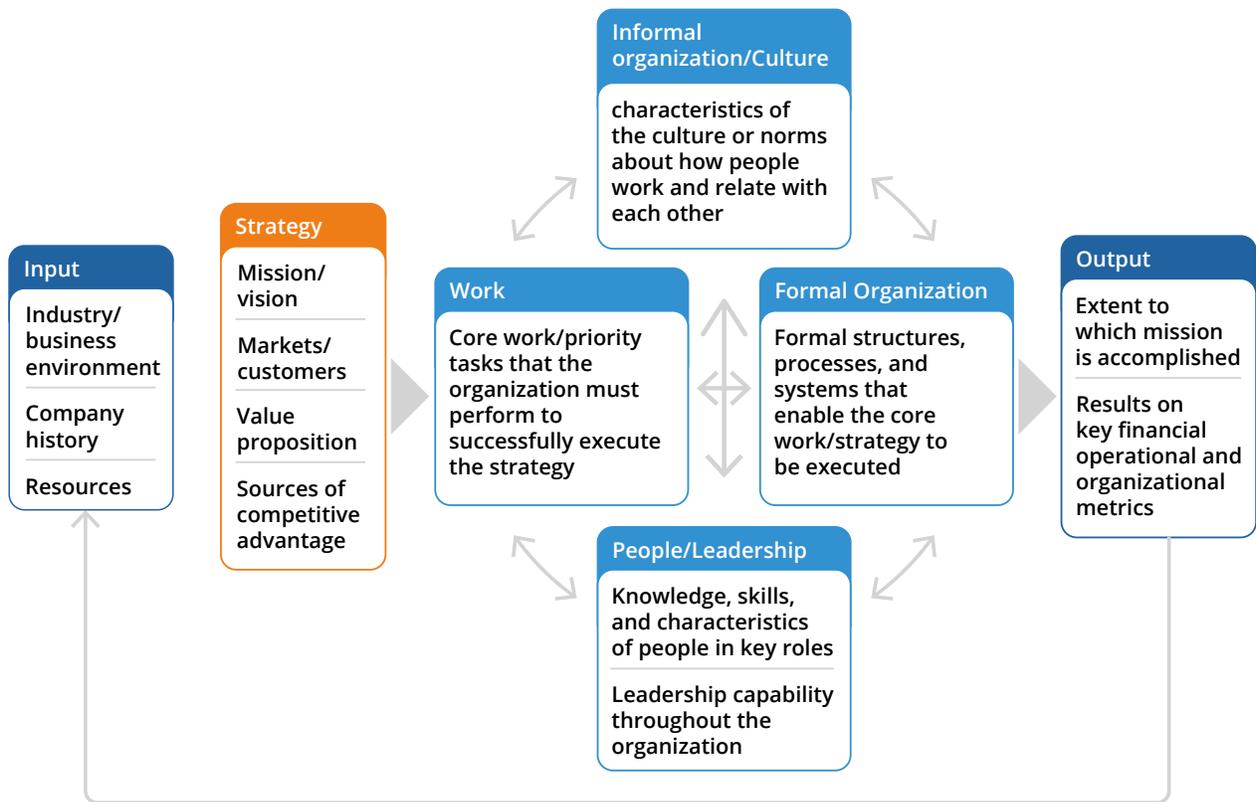
2 Starkly define *what* needs to change across your organizational system

By definition, a transformation requires a massive change effort, and CEOs and their teams must ultimately determine what about their business and organization needs to change, and how to go about making those changes in ways that lead to sustainable results.

Our health care CEO clients have found the Congruence Model to be a helpful framework for determining what they need to change in order to drive success.

Framework for Understanding Organizational Performance

Informal organization/Culture

characteristics of the culture or norms about how people work and relate with each other

Strategy

Mission/ vision

Markets/ customers

Value proposition

Sources of competitive advantage

Input

Industry/ business environment

Company history

Resources

Work

Core work/priority tasks that the organization must perform to successfully execute the strategy

Formal Organization

Formal structures, processes, and systems that enable the core work/strategy to be executed

Output

Extent to which mission is accomplished

Results on key financial operational and organizational metrics

People/Leadership

Knowledge, skills, and characteristics of people in key roles

Leadership capability throughout the organization

Adapted from the Nadler-Tushman Congruence Model

At the heart of the model are four core organizational components: the *work*, or the core tasks required to execute the strategy; the *leadership and people* who carry out that work; the *formal organization* of structures, processes, systems, metrics that specify how work is assigned and performed; and the *culture* or behavioral norms that influence the ways in which people approach their work, interact, and communicate with each other.

In high-performance enterprises, each component of the organizational system is aligned with the strategy and with the other components of the system, enabling effective execution of the strategy and achievement of targeted results.

The value of the model is in providing CEOs with a big-picture view of all aspects of their organizations that need to be aligned, and a systemic approach to driving change in a way that delivers sustainable results.

CEOs can provide clear direction for their transformations by crystallizing their strategies, conducting "organizational due diligence" to assess their current organization's capability and readiness to execute the strategy, and starkly defining the "from-to" changes that are needed in their overall organizational architecture.

As an example, overleaf is a "from-to" analysis for a health plan company that was intending on transforming itself from an insurance company that provides health care coverage to an "integrated health management" company that improves the health status of its members and drives down health care costs.

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Transformation of a Heath Care Insurance Company

ELEMENT	FROM	TO
Strategy	• Provide competitive products and networks while managing membership levels to optimise profitability and surplus for the health plan. • Meet community responsibilities.	• Engage and collaborate with providers and consumers to meaningfully improve health status and reduce health care costs. • Solve the health care crisis.
Output	• Strong health plan financial surplus. • Stable membership.	• High quality, affordable, accessible health care. • Durable market position.
Work	• Design and deliver competitively priced products. • Negotiate competitive rates with providers. • Efficiently manage claims. • Provide acceptable customer service. • Manage risk.	• Engage providers in designing efficient clinical delivery systems and promoting health status of members. • Engage consumers in taking personal accountability for enhancing the health status and managing health care spending.
Formal Organization	• Siloed organization – functions work independently. • Deeply experienced functions with expertise in the existing business model.	• Structure, information flows, management and decision processes that foster innovation and collaboration across functions and among the organization, providers and consumers.
Informal Organization	• Idiosyncratic to individual health plans. • Culture may be turf-orientated, risk averse, historically rooted, and relationship based.	• Strong vision-based motivation. • Culture fosters cross-functional teamwork; coordinated, calculated risk taking; innovation; experimentation and fast-paced learning.
People	• Deep expertise in functional roles. • Pride in service to communities. • Leaders reinforce legacy.	• Core leadership skills include communication; teamwork; creativity; adaptability; comfort with ambiguity; ability to synthesize data; decide and act quickly; ability to tightly manage performance and maintain trust.

3 Create a transformation roadmap and infrastructure that sustains *focus* and drives *execution*

With a systemic view of what needs to change, you can now engage your executive team in planning how to design and implement those changes in your organization, typically through a series of transformation initiatives.

While an initial organizational due diligence may surface a significant number of issues that may warrant transformation initiatives, our strong suggestion is to force yourself to narrow your set of initiatives to the "vital few" to avoid the all too common "initiative overload" syndrome, in which a long laundry-list of poorly coordinated initiatives diffuse focus and consume valuable resources.

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To avoid that mis-step and to lay a strong foundation for effective focus and execution, push your team to:

a. Prioritize initiatives and create an integrated transformation road map. Identify the vital few initiatives that the executive team believes are needed to execute the strategy, build organizational capability, and achieve transformation goals. Then, map out the sequence and timing of those initiatives, attending to the need for systemic changes in the organizational "hardware" (structures, systems, processes, metrics, etc.) and the organizational "software" (leadership, talent, skills, behaviors, culture).

b. Establish an initiative management structure (PMO) that facilitates effective decisions and supports line managers in leading the transformation. Most transformation efforts involve creating some form of Program Management Office, or temporary infrastructure to support the transformation. While PMOs are important for launching, coordinating, and managing teams that design and support implementation of changes, PMO leaders and project managers don't transform organizations, line managers do. So, as you are creating the PMO, be clear about the roles, expectations, decision authority, and leadership requirements of groups and individuals both within the PMO structure, and within the line management organizations. Ensure that line managers are appropriately involved in providing input and making decisions about changes, and that they own accountability for executing those changes, with support from the PMO.

c. Confirm capacity and capability to staff and lead initiatives. As your team defines the priority initiatives and PMO / project structures, ensure that they explicitly identify the specific resources required to support the initiatives and the PMO, including the time required by initiative leaders and team members. Doing so often provides a "wake up call" regarding the capacity to drive transformations and avoids the risk of inadvertently stretching people to the point that they can't deliver results for transformation initiatives and simultaneously deliver in their "day jobs" of running the business.

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4 Redesign your organization to operationalize the transformation

Most transformations involve redesigning some or all of your organization. As one of our colleagues was fond of saying, this is the point at which you need to "tangibilitize the metaphysical," or concretely describe the future organization and how it will work to achieve the transformation goals that you've set.
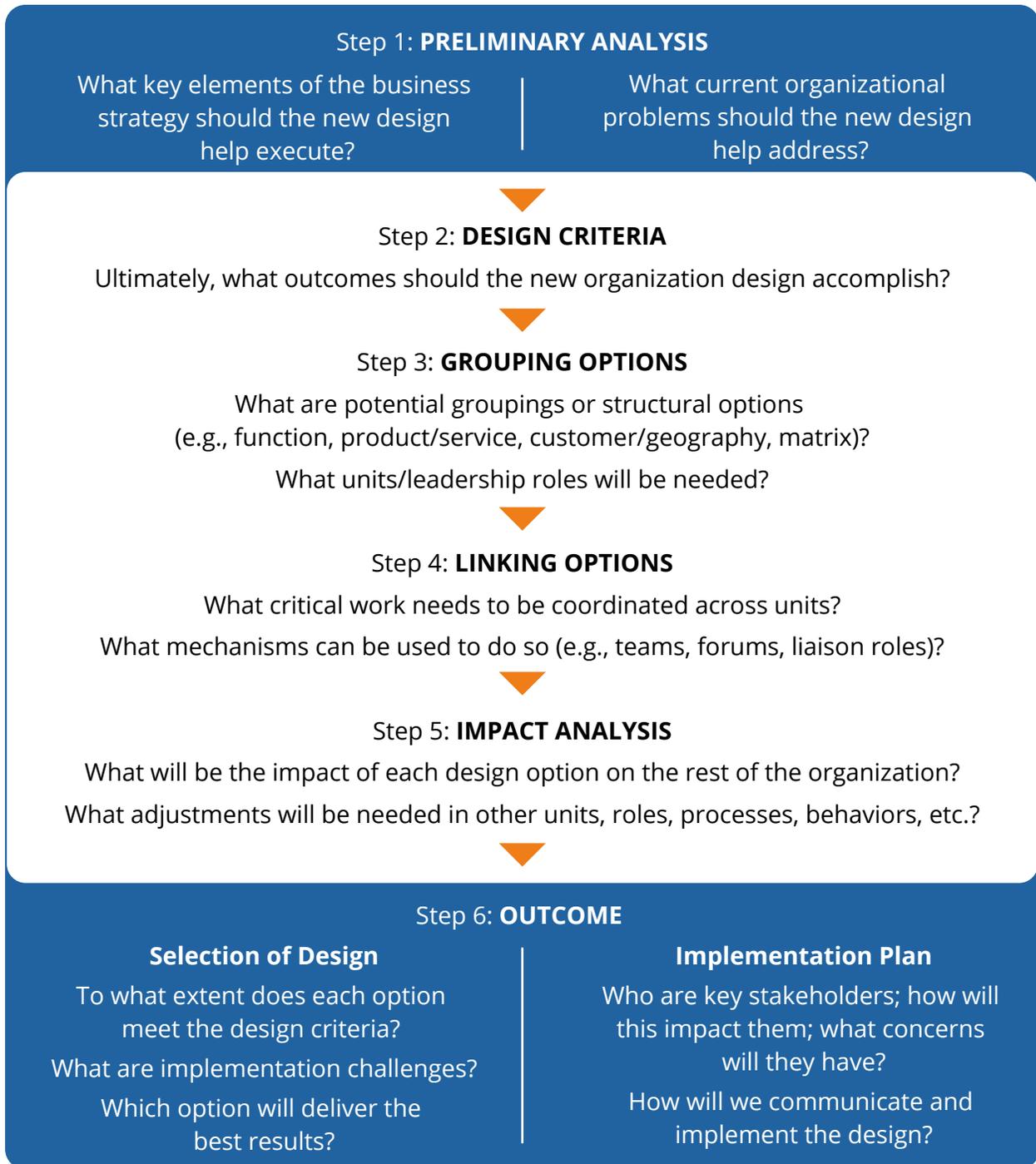
Whether your strategy calls for creating a health plan division to partner with a delivery system to provide integrated health care services across multiple geographies, or moving from a "holding company" that oversees a diverse set of medical facilities into an "operating company" that delivers coordinated care across an entire system, you will need an organization design process that is forward looking and focused on delivering transformational goals, and one that is well informed by people who have a deep understanding about how the current organization works – formally and informally, and what it will take to change it.

In our decades of work with companies in health care and other industries, our CEO clients have found the following process to reliably deliver innovative and implementable organization designs in a matter of weeks.

a.   Appoint a design team with a diversity of perspectives. The team should be a relatively small group (6-8) of people who you know will be future leaders within the organization, bring different perspectives and points of view, and are adequately objective and "emotionally mature" enough to provide balanced input on designs that may impact their current and future roles within the organization. The role of the design team is to provide you, as CEO, or the relevant business unit leader with recommendations on the overall design and implementation.

b. Ask the design team to work through the following organization design process.

Strategic Organization Design Process

Step 1: PRELIMINARY ANALYSIS

What key elements of the business strategy should the new design help execute?	What current organizational problems should the new design help address?

▼

Step 2: DESIGN CRITERIA

Ultimately, what outcomes should the new organization design accomplish?

▼

Step 3: GROUPING OPTIONS

What are potential groupings or structural options
(e.g., function, product/service, customer/geography, matrix)?

What units/leadership roles will be needed?

▼

Step 4: LINKING OPTIONS

What critical work needs to be coordinated across units?

What mechanisms can be used to do so (e.g., teams, forums, liaison roles)?

▼

Step 5: IMPACT ANALYSIS

What will be the impact of each design option on the rest of the organization?

What adjustments will be needed in other units, roles, processes, behaviors, etc.?

▼

Step 6: OUTCOME

Selection of Design	**Implementation Plan**
To what extent does each option meet the design criteria?	Who are key stakeholders; how will this impact them; what concerns will they have?
What are implementation challenges?	How will we communicate and implement the design?
Which option will deliver the best results?	

The process of having a design team made up of people with multiple perspectives constructively debate and work through those questions yields well informed decisions about the organization design and fosters buy-in among design team members who become credible advocates for the new design.

c. Engage your leadership team, and medical experts in particular, in communicating and implementing changes. Implementing a new organization design is often the point at which "the rubber meets the road" in terms of making the transformation real for people and helping them make adjustments in their roles, skills and behaviors to make it work. While former design team members or PMO staff can help, it is ultimately up to the executive team and line managers to implement the new organization. Work with them to understand the implications of changes for stakeholders, anticipate concerns, and be prepared to address them constructively.

Also, in our experience with health care organizations, and provider systems in particular, those leaders who are clearly recognized as clinical experts, who are driven to deliver quality care and service to patients and members, and who are informal leaders (regardless of their formal titles) have the strongest impact on gaining support for organizational changes. With that in mind, we suggest working through your executive team to identify those formal and informal leaders, and prepare them to communicate and support implementation of changes throughout the organization.

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5 Strategically deploy, align and develop leaders, and prepare them to lead the transformation

Leadership is a "gating factor" for transformation. Unless you have a critical mass of leaders at all levels of the organization who are willing and able to drive the agenda that you have set, your transformation won't succeed. With that in mind, we encourage our clients to build leadership alignment and development strategies into their transformation efforts, from the very beginning. Below are suggested steps to be sure that you have the leadership you need to succeed.
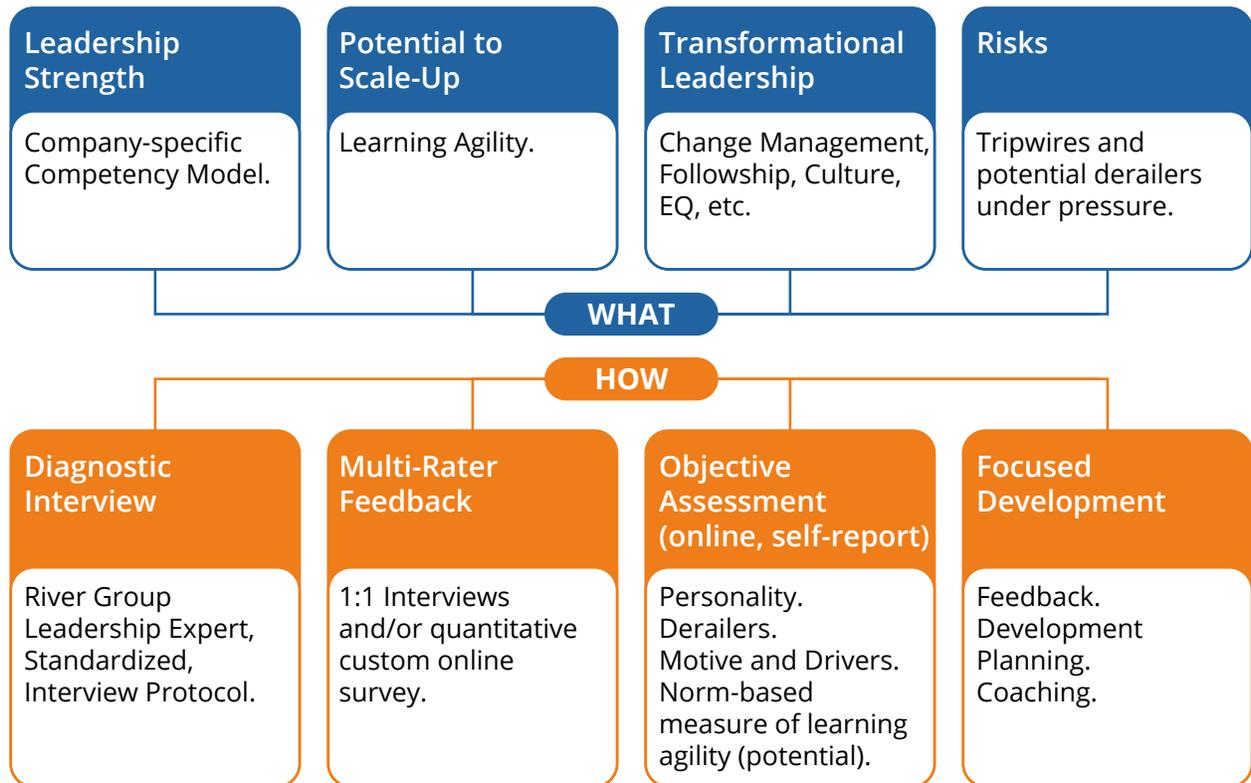
Unless you have a critical mass of leaders at all levels of the organization who are willing and able to drive the agenda that you have set, your transformation won't succeed.

a. Conduct a fast-cycle talent audit, and deploy the right leaders to strategic initiatives and line management roles. The demand for leadership rises during transformations because you need people to lead cross-enterprise initiatives, as well as people who can lead major units within the organization. Transformations also raise the opportunity to discover and develop "hidden" talent that can contribute to and thrive in the new environment. To seize that opportunity...once you have defined your vital few initiatives and identified key leadership roles created by an organization redesign, take a step back and look broadly at the specific roles and competencies needed both for leading strategic initiatives and projects, and for leading "mission critical" units within the organization. Then, work with your team to cast a broad net in identifying people who might fill those roles, assess their fit and potential, and strategically deploy leaders to the right roles within the project structure and line management.

b. Accelerate development for people in mission critical roles. For those people who are in key critical strategic initiative or line management roles, provide them with a tailored development process that focuses on ensuring success in their current roles and preparing them to move into roles of broader responsibility

as the transformation progresses. Below is an overview of a typical leadership assessment and development process used to focus and accelerate development for key leaders.

Framework for Assessing and Developing Leaders

Leadership Strength	Potential to Scale-Up	Transformational Leadership	Risks
Company-specific Competency Model.	Learning Agility.	Change Management, Followship, Culture, EQ, etc.	Tripwires and potential derailers under pressure.

WHAT

HOW

Diagnostic Interview	Multi-Rater Feedback	Objective Assessment (online, self-report)	Focused Development
River Group Leadership Expert, Standardized, Interview Protocol.	1:1 Interviews and/or quantitative custom online survey.	Personality. Derailers. Motive and Drivers. Norm-based measure of learning agility (potential).	Feedback. Development Planning. Coaching.

The process starts with developing or confirming core and job specific leadership capabilities needed to succeed in the job and drive transformation. While each organization will have it's unique leadership requirements, several leadership capabilities consistently rise to the top for executive leadership roles in health care organizations: (see overleaf).

Key Leadership Capabilities Needed for Health Care Transformation

STRATEGIC LEADERSHIP AND AGILITY	Has the foresight to translate emerging industry, marketplace, technology, and regulatory trends into compelling strategies that create a competitive advantage for the company and enable it to fulfill its mission and remain financially healthy. Takes appropriately calculated risks and proactively adjusts strategies and tactics to avert threats and capitalize on emerging opportunities.
BUSINESS PARTNERSHIPS	Identifies opportunities to partner with other organizations to advance the company's mission. Builds constructive relationships, negotiates mutually beneficial deals, establishes effective operating models, and manages alliances and partnerships in ways that create value for the company and it's members and patients.
FOSTERING INNOVATION	Creates an environment in which people proactively create innovative ways to promote health, deliver care, and operate more efficiently. Frames and communicates the need for innovation, develops structures and processes to promote it, takes appropriate risks to support innovative ideas, and rewards and promotes learning from "constructive failure."
CROSS-ORGANIZATIONAL TEAMWORK	Identifies critical work that must be coordinated across organizational units and establishes the right roles, forums, teams, and processes to drive effective cross-unit teamwork. Sets expectations for effective collaboration and proactively manages dynamics to ensure effective teamwork within and across leadership groups for interdependent organizations.
LEADING CHANGE	Challenges the status quo, constructively questioning assumptions about the way things are done. Builds followership for new directions and innovations. Instills a sense of urgency, and persuasively communicates the rationale for change. Develops high performing teams and builds the capability of other leaders in the organization to drive and lead change.
DEVELOPING LEADERSHIP AND TALENT	Builds and sustains a high-performing leadership team that delivers results and provides cohesive, impactful leadership for the organization. Gives clear, constructive feedback and provides coaching and support to help team members develop. Develops successors and talent pools for key positions.

The key elements of a successful development process like the one described above are to gather robust data using multiple sources and methods; use insights from the data to identify strengths on which to build and a few (2-3) key areas on which to focus development; engage the leader and his/her boss in creating and implementing a development plan that includes "stretch" assignments that meaningfully contribute to business results and require the leader to develop capabilities in his/her core area for development; and focused coaching and / or mentoring to augment and accelerate the leader's development.

HOW TO SUSTAIN SUCCESS

Defining the right strategy, redesigning the organization and operations to support that strategy, and getting the right leaders in critical positions are all necessary...but not sufficient to sustain a transformation. Unless the behavioral changes needed to execute the strategy are consistently woven into the culture and norms for how people work together to get things done, transformation efforts are likely to unravel.

For example, with increased growth, many health care systems with multiple facilities across multiple regions are centralizing capabilities or creating centers of excellence to create consistency in brand, models of care and patient experience. In doing so, they have created "matrixed" organizations where system level leaders define standards, "best practices" and approaches that need to be implemented by local leaders. For that organizational strategy to succeed, local facility executives need to shift their behaviors from defining, directing, and implementing facility specific brands, strategies and approaches to promoting the system brand, adopting system "best practices," and facilitating collaboration between system and facility leaders to tailor local solutions that comply with system standards. Local staff may also need to shift from a "not invented here" mindset to one of welcoming and actively adopting solutions introduced by system leaders. In many health care organizations, local leaders and staff have difficulty adapting their behaviors, and they may explicitly or implicitly continue to foster local practices that don't support a systemic approach.

In order to foster the cultural and behavioral adjustments needed to sustain a transformation, CEOs and their executive teams can adopt a few key practices.

1 IDENTIFY AND REINFORCE THE "VITAL FEW" BEHAVIORS

Dramatically changing organizational cultures is very difficult to achieve and rarely yields sustained results. Rather than trying to promote a wholesale "culture change" as part of a transformation, CEOs and their teams can identify and define those vital few behavioral adjustments that are critical to sustaining a transformation, integrate those behaviors into the work of the organization, and explicitly reinforce and reward them. For example, enterprise CEOs can explicitly set expectations that system and local leaders collaborate to create and implement solutions that comply with system standards and work within local facilities. Those behavioral expectations should be built in to performance objectives, reviews, and compensation programs, and the system CEO should visibly reinforce those behaviors among system and local leaders in formal and informal ways.

2 ENGAGE INFORMAL LEADERS IN SUPPORTING ORGANIZATIONAL CHANGES

Much of what is accomplished in organizations happens through informal relationships and processes. To effectively influence the informal organization, CEOs and their teams can explicitly identify people who may not be in formal leadership positions but have significant influence on what people think, how they feel, and how they behave, and then develop strategies for engaging those informal leaders in supporting changes required to sustain a transformation. Our experience is that influencing the informal organization is best done "informally." Rather than creating formal roles for "change agents," or "change champions," which artificially puts people in leaders they may not really support, ask senior leaders who have relationships with informal leaders to approach and engage them in providing insights about how changes are being received and in promoting the agenda of senior management in ways that feel right for the informal leaders.

3 USE TRANSITION METRICS TO ASSESS PROGRESS AND MAKE ADJUSTMENTS

Ultimately, transformations are intended to deliver sustained financial, clinical, and operational outcomes. In addition to being crystal clear on those priority outcomes (e.g., financial performance, quality indicators, patient experience, population health), CEOs and their teams can identify and assess "transition metrics" that are predictors, or "leading indicators" of those outcomes. Those transition metrics can include behavioral adjustments (e.g., the extent to which staff demonstrate cross-organizational team-work) which can be measured by regularly scheduled pulse surveys. Transition metrics can also include the extent to which major initiatives designed to drive the transformation are meeting key milestones. Those metrics can then be integrated into an overall "transition dashboard" to track progress and make adjustments.

While there is no definitive "formula" or play book for leading transformations, the strategies and tactics described here are what we and our clients have found to be "tried and true" approaches that can be adapted for the unique situations faced by CEOs across a broad range of health care organizations. We hope these ideas have provided some food for thought to stimulate your thinking about how to not only survive, but thrive in this dynamically evolving industry.

About the author

Michael Franklin, PhD, is a Partner at The River Group with over 25 years of experience helping CEOs, boards of directors and senior managers to design and implement large-scale organizational change and build leadership capability to drive successful business performance. Clients have included Fortune 500 and mid-sized companies across multiple industries including health care, financial services, technology, telecommunications, energy, transportation, and consumer products.

His expertise includes CEO and executive team effectiveness, executive assessment and development, CEO and executive succession planning, organization design and transformation, merger and acquisition integration, change leadership, and board assessment and development.

Michael's recent work in the health care industry has included helping a large delivery system to design and facilitate a multi-year process to plan CEO succession, develop executive talent, and improve the organization's ability to execute system-wide strategies in local markets. He has also helped the newly appointed CEO of an integrated health plan/delivery system transition into his role, establish his leadership as CEO, align and develop his team, and build the organization's capability to execute its growth strategy. Another engagement included helping the Board of Directors and CEO of a bio-medical research, education, and health care delivery system to assess and accelerate development of the CEO and his executive team to enable them to execute a newly developed strategic plan.

Prior to joining The River Group, Michael was a Managing Director with PwC's Advisory practice. He spent most of his career with Delta Consulting Group, which was acquired by Marsh & McLennan Companies and operated as part of Oliver Wyman and Mercer consulting groups. He was a Partner at Delta for 15 years and led Delta's San Francisco office for over 10 years. Before moving into external consulting, he led an organization effectiveness function within Kaiser Permanente in Northern California.

Michael holds a BA in Psychology from the University of California at Los Angeles and a PhD in Psychology from the California School of Professional Psychology, Berkeley.

About The River Group

The River Group is a leadership consulting firm. We work with CEOs and senior executives on their major organizational and leadership issues.

We support leaders in transforming their businesses by helping them to:
- Architect and lead change
- Create a sustainable and fit-for-purpose culture
- Design an organization aligned with the strategy

We support businesses to transform their leaders by helping them to identify and develop current and future leaders who excel in:
- Change leadership roles
- Enterprise-wide leadership roles
- Roles of increasing responsibility

We work with organizations all over the world. We harness the best in social science research with proven tools and methods to deliver actionable solutions to our clients.

Our team combines the behavioral know-how of consultants with the concrete experience of the CEO.

The River Group

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