Trustee

Reprinted with permission from the November/December 2013 issue of Trustee magazine, vol. 66, no. 10.

Leadership Lessons from Lean

Can snow throwers improve health care quality? They did at ThedaCare.

By John S. Toussaint, M.D., and Leonard L. Berry

Overcoming internal skepticism and resistance while forging an organizational culture centered on continuous quality improvement and waste reduction is not for the faint of heart. This is the story of ThedaCare, a five-hospital system based in Appleton, Wis., that took this journey supported by a strong board of trustees and achieved remarkable results.

Beginning the Journey

This level of performance has not always been the norm at ThedaCare. The system's quest for excellence began in 1992 when the board chair declared that 50 percent of the management bonus would be based on quality performance. His definition of quality was meeting the customers' expectations, and he invited ThedaCare leaders — though few accepted — to visit his manufacturing company to demonstrate.

At the time, management believed quality depended on whether services were covered by board-certified physicians. ThedaCare's leaders did not understand performance nor how to measure it. Physicians, meanwhile, thought they were in charge. No one had asked patients about their experiences.

That 1992 board meeting had a strong impact on ThedaCare's management team. Board members wanted to know how to define quality, which helped to launch ThedaCare on a quality journey that continues to this day.

ThedaCare was receiving many quality accolades when I [John S. Toussaint] became CEO in 2000. But the reliability of the patient experience was below par, a reality reinforced by board members. One director said his mother had waited 3.5 hours in the emergency department before she was treated. Another said a nurse stuck his disabled child 12 times when trying to start an IV. These were real problems; something was clearly broken. At the same time, business leaders on the board sent the message loud and clear: The price of health care was too high in this community.

In response, the board began to search for a methodology that could deliver consistent, high-quality care at a lower price. The search began with visits to board members' manufacturing plants. One that made snow throwers would make an indelible impact.

The Big Bet

ThedaCare's board traditionally had been focused on operations to the detriment of strategic discussion. Paul Karch, board chair from 2004 to 2006, restructured and lengthened the meetings so, instead of an annual retreat on strategy, the board discussed it at each meeting. The number of meetings decreased from 10 to six, but each meeting was longer. Two hours were focused on strategy and one hour on operations.

Walt Rugland, who succeeded Karch as board chair in 2007, suggested using a consent agenda. This focused the board on the bigger picture. "I thought that much of what was happening at board meetings was not helping management," Rugland says. "Moving to a consent agenda opened up the meeting to strategy discussion and the board started to understand the complexity of health care and that the current approach was unsustainable." Adds Karch: "Your board will not be very helpful if it doesn't understand the business."

Refocusing on strategy was critical as administrators brought to the board what Rugland originally described as "the big bet." In 2002, management proposed transforming the organization by using manufacturing quality principles. The big bet involved embarking on a massive cultural change toward continuous improvement. ThedaCare needed to beef up quality reporting and publicly report outcomes. It needed to tell the truth, identify defects without fear and focus front-line staff on solving problems. It needed to become patient-centered in decision-making.

To deliver on this continuous improvement, administrators chose the Lean operating system, which they had studied at Ariens Co., an outdoor power equipment company that makes snow throwers and lawn mowers in Brillion, Wis. They had seen Ariens employees on the front lines studying and solving problems, embodying the culture needed at ThedaCare. When management presented this idea to the board, a trustee who also served on the Ariens board agreed and helped the ThedaCare board to understand how this operating system could be applied to health care.

ThedaCare defines Lean in health care as "an organization's cultural commitment to applying the scientific method to design, perform and continuously improve the work delivered by teams of people, leading to measurably better value for patients and other stakeholders." The core principles are: attitude of continuous improvement, value creation, unity of purpose, respect for front-line workers, visual tracking and flexible regimentation — otherwise known as standard work. In 2003, the board unanimously approved the big bet.

'Destroying the Place'

At first, administrators didn't quite realize the magnitude of the change being initiated. A watershed moment for the board came two and a half years into the journey: Managers presented the worst employee satisfaction scores in ThedaCare's history, the worst physician satisfaction scores and the revelation that a physician group had decided to leave and become a competitor. "It appears I'm destroying the place. Should I continue?" I asked the board. Several board members ran their own manufacturing companies and most had been through operational excellence transformations. To a person, they advised staying the course.

This level of board support was critical when things got tough. During such periods of cultural transformation, administrators' or board members' commitment to the change easily can unravel as the intensity of physician and staff unrest increases. But the board stayed with the plan.

In this new world of continuous improvement, however, managers learned that ThedaCare couldn't just mirror manufacturing. This was an organization of highly skilled, well-trained personnel. Management had to back up and understand where it had gone wrong.

Under the Lean system, for example, the leadership competencies required for success changed radically. The leader's new role was to mentor, facilitate and teach; whereas in the past, it had been an autocratic role focused on managing by objectives.

This led to a new view of succession planning. Building future leaders from within who understood the new norms for leadership competency and behavior was critical. Although business leaders on the board recognized this, others did not. When it came time to consider candidates for the next CEO, some board members were passionate about an external search to find a "world-class" CEO. But in building and sustaining a culture of continuous improvement, an internal candidate who understands the organization and the realities of Lean implementation likely would be the better choice. I presented to board members two qualified internal candidates whom I had mentored. They chose Dean Gruner, M.D., as the new CEO in 2008.

Culture Change Takes Hold

From 2004 to 2009, ThedaCare's operating income more than doubled and has remained around or above 4 percent of revenue since then. Cash on hand increased from $110 million in 2004 to $400 million in 2010. Bond ratings improved from A- to Aa-. Most importantly, quality improved dramatically. The system's physicians were ranked first in statewide quality performance by Consumer Reports. As a Pioneer Accountable Care Organization with Bellin Health, ThedaCare ranked second in clinical quality measures. And for nearly seven years, there have been no medication reconciliation errors when performed by the pharmacist.

These results were possible because a culture of continuously improving care delivery took hold. Employees learned that waste elimination is a bigger and better idea than cost reduction. By eliminating waste and increasing value to the patient, quality improves, staff morale goes up and costs go down. Gruner, the internal candidate, not only sustained the culture as CEO, he strengthened it.

An Ongoing Journey

ThedaCare's success story is open-ended — the quest for quality is never complete — and the board played a key role throughout the process. The best members actively engage in governance. They make tough decisions and persevere through difficulty. They bring their experience and vision to the table. They invest their intellectual property in the organization, giving their best thinking to complex decisions. Excellent board members commit, challenge and counsel in partnership with management for the benefit of patients and other stakeholders.

John S. Toussaint, M.D. *(johntoussaint@createvalue.org), is CEO, ThedaCare Center for Healthcare Value, and CEO emeritus, ThedaCare, Appleton, Wis.* **Leonard L. Berry, Ph.D.** *(lberry@mays.tamu.edu), is University Distinguished Professor of Marketing and Regents Professor at the Mays Business School, Texas A&M University, College Station, Texas.*

Becoming the Board Your Hospital Needs

The cultural transformation that paved the way to ThedaCare's high performance would not have occurred as early or as deeply without board intervention. Linking half of the management bonus to quality performance in 1992 — and defining quality from the customer's perspective — was a turning point and planted the seeds for "the big bet" a decade later. The board's role in ThedaCare's competitiveness today as an independent nonprofit health system offers salient lessons for all health care trustees:

1. Earn your board seat by making the tough decisions. The risk of non-action is often greater than the risk of action. A critical board role is to ensure that management is doing everything possible to control the organization's destiny. That means making the tough decisions today to strengthen the organization tomorrow. It requires creating internal change within the organization's control to respond to external change beyond its control. This enables the hospital to maintain a good fit between what and how the market buys and what and how the organization sells. ThedaCare was lauded for its performance before it uprooted its culture to become far better. Maintaining the status quo would have been much easier, but where would ThedaCare be today had it taken the easy path?

2. Take the long view and don't panic. Cultural transformation is a lengthy, difficult road. Moving from the familiar and comfortable to the unfamiliar and uncomfortable stresses almost everyone. The idea of applying manufacturing concepts to the sacred practice of health care was perceived as a combination of heresy, ignorance and disrespect by many insiders. The board, however, persevered. Some of the trustees had been through cultural transformation in their own companies and knew that organizational unrest was inevitable. Focusing on the reason for change, rather than its immediate consequences, served ThedaCare's board well.

3. Take advantage of board diversity and engagement. ThedaCare benefited greatly from its actively engaged board members with business leadership experience. Health care differs in kind rather than degree from other services, yet health care organizations still have other types of common challenges, from recruiting talent to competing for market share to managing growth. Having smart, committed people with diverse experiences on the board is essential. Diversity of all kinds is as critical at the board level as it is within the organization. What appears as success to one person may seem like a recipe for failure to another. A board that lacks fresh eyes and a willingness to challenge the status quo is vulnerable. So is a board of members who serve for the wrong reasons, who often miss meetings or do not prepare for them, or who do not make an effort to learn about the complexities of health care. "A health care board seat is not a reward for being a community leader," says Paul Karch, former chair of ThedaCare's board. "It is an obligation, a duty to serve and to contribute."

4. Favor internal succession. Ensuring effective succession planning for the CEO position is a key board responsibility. No role is more important. Ten years of work at ThedaCare could have been undone overnight by an outsider with no experience as a Lean leader.

Boards should have a clear understanding of who in the organization is capable of being the next CEO and should ensure that these internal candidates are gaining the necessary experiences to prepare them for the job. If the talent for succession is not present in the organization, the board should work with the CEO to attract it. It is generally better to go outside for an executive to fill a position that could lead to the CEO job than it is to go outside for the CEO. Internal CEO candidates can learn the organization's culture, assess talent and build trust and credibility before one of them becomes CEO; external candidates cannot. Plus, the board knows more about internal candidates than an interview process reveals. The risk of an external CEO hire is simply greater.

External CEO searches are sometimes necessary, for example, when an organization is performing poorly, or is dysfunctional and requires a fundamentally different kind of leadership. Otherwise, world-class leadership talent often already exists within organizations and just needs to be identified and nurtured. ThedaCare's continued strong performance through its CEO transition is instructive.

5. Stay strategic and let managers do the managing. A key juncture in ThedaCare's governance was changing the format of board meetings to encourage strategic discussion. Governing effectively requires the self-discipline to help senior management, but not manage; to approve strategy, but not dictate it. Management needs the reins to manage — and the backing of the board to do it boldly. The job description of board members is a short one: make sure the right CEO is in place and succession candidates are in the wings. Monitor the organization's aspirational strategies (Where is the organization headed?) and implementation strategies (How is it going to get there?). Work with management to establish key performance metrics for systematic board review. A probing question from a director is more likely to resonate with management than blunt criticism based on incomplete information or a personal agenda. The organization's "weeds" are for managers, not directors. — ***J.S.T. and L.L.B.***