April 30, 2015

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Governed or Governed?

James Watt, the Scottish inventor, mechanical engineer and industrialist, modernized the steam engine, developing a way for it to produce rotary movement. But for the engine to operate in that fashion, its speed had to be kept relatively constant. The solution: a governor, a device that controls or limits an engine's speed.

What works well for steam engines spells death for your medical group. That's because in the healthcare business, money likes speed. Success requires the ability to analyze a situation and come to a decision quickly.

Unfortunately, too many medical groups operate with defective governance structures or without effective leadership that's needed to take advantage of profitable opportunities.

In other cases, it's not a lack of leaders. It's that group leaders aren't permitted to lead or don't lead effectively.

Here are some of the ways in which a weak system of governance can sabotage a medical group's business, as well as potential solutions for avoiding this predicament.

Democracy Or Dictator

Democracy is great in theory, but once you get past the election of a leader, it just doesn't work for a business of more than a few members. It's simply stupid to make timely decision-making difficult or even impossible. Yet this is the corner that groups paint themselves into when they allow too many people to participate in the leadership process. I've seen 26 person boards. I've seen groups with requirements that decisions go from committee to committee to committee.

To be sure, I've also seen groups with the exact opposite problem: they have a dictator. This may work well if he is a benevolent dictator, but if he's simply looking out for himself, it can destroy the business. It often results in shareholders' lawsuits over business decisions, or their pushback by imposing an overly complex structure of committees in charge of this and that. While these checks and balances could help to rein in the dictator, independently operating committees will doubtlessly slow decision-making to a crawl.

The Crime Of Consensus

I've also seen what would otherwise be effective governance structures hobbled when those in charge of making decisions and taking action can't (or worse, won't) exercise their authority unless and until they gain a consensus from the group's members. In this fashion, factors as marginal as vacationing physician-owners can sabotage effective leadership.

Consensus governance has two other critical flaws. First, building consensus requires compromise, and whether it's done through a meeting and a vote or through a series of conversations, it results in watered-down decisions. But there's no reason to weaken a decision before it's put into action. For example, it would be foolish to water down a contract negotiating position within your own group before it's even presented to the other side.

Second, consensus governance makes it practically impossible for a medical group to adapt and enforce a strategic outlook. Participatory leadership rarely generates strategy.

Instead, it results in reactionary decision-making: They've done this, so how should we respond?

Leadership structures that work

I'm a strong proponent of the **strong leader** form of governance. One individual, grandfathered in or elected every year or two, makes nearly all of the center's business decisions.

It's possible to set up this governance system with or without the addition of an executive committee (which can, as mentioned above, impact the strength of a strong leader).

Small management committees are another option. By small I mean as few as possible. Two people, maybe three to break ties, who are charged with the decision-making.

The governing documents should spell out whether the members will be permanently designated or subject to periodic shareholder elections.

One word of caution, however: putting two or three individuals in charge is, in my view, not necessarily an improvement over a single leader and may result in consensus decision-making, committee think and their attendant flaws.

Corporate-style governance involves a basic level of democracy with shareholders electing a board or management committee. Then, in corporate format, those elected choose a president or managing partner, who serves at their pleasure. It's important to understand, though, that simply adopting corporate-style governance is not enough to ensure effective decision-making. In order for this structure to be fully effective, the rules must err on the side of allocating too much power upward in the chain.

Shareholders should be entitled to vote for board members and on major events reserved by state law to equity owners, such as dissolving the entity. The fewer voting rights, the better, in order to avoid consensus quagmires. Board members should choose their leader and advise on major policy issues, but never make day-to-day business decisions or override those of the leader.

Failing forward faster

No matter which system of governance your group adopts, you must empower your leaders to lead. You must understand that not all of your leaders' decisions will pan out in the end, even if they were good decisions. You must also understand that they will make some poor decisions. The key is that leaders must be able to fail as well as to succeed, or they won't be willing to take risks or expand their abilities, both of which are necessary over the long term for a business to succeed.

If your medical group's leaders turn out to be incompetent, remove them from office at the next election. If they turn out to be thieves — which can happen — throw them out and sue them. But don't institutionalize a system that guts leadership from the get-go. Lead, follow, or get out of the way.

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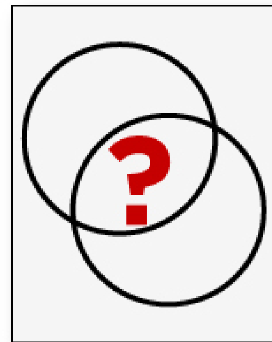

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All Things Personal

My firm's been a Verizon wireless customer for decades.

My phone had an unlimited data plan that Verizon permitted me to extend over the years as I upgraded from phone to phone. In return, I was an extremely loyal customer.

Then, earlier this month, I purchased a new iPhone at the Apple store. The Apple employee speaking with the Verizon representative to register my new phone informed me that Verizon would no longer allow me to renew my unlimited plan because it was not currently offered. Why not? They had kept my plan in place for years as I had switched phones.

I asked the Apple employee to hand me the phone, which he did. I told the Verizon representative, Peter, that they'd allowed me to continue on the old plan for years even though it had not been currently offered. Peter simply said that the plan was no longer offered. I think he was reading from a script.

I asked him if he was saying that the only way that I could replace my phone on the account was to be put on a new plan, not the unlimited data one. He told me "yes" and then said that he needed to speak with the Apple rep. Apparently, he wasn't supposed to speak directly with me at all.

Why change a policy obviously aimed at keeping the most loyal customers loyal? Why upset a decades long loyalty?

I can't blame Peter, the Verizon rep, but his managers have to be complete idiots. When the first phone my firm owns under contract comes up for renewal, we'll shop rates and then move it, and each of the others, to the carrier with the best plan.

The idiots at Verizon have turned a loyal customer into a price shopper.

Are your policies or management or lack of either turning your customers (hospitals, referral sources, patients) into prices shoppers, too?

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