

# Integrating Governance, Strategy, Risk and Reporting

## A Discussion Paper

### 1. Introduction

The opportunities and challenges created through the changing health needs of individuals and the desire to provide client-centred services from both whole-of-organisation and whole-of-health perspective will prompt health care organisations and their Boards to consider how best to respond.

A well-governed organisation clearly understands what it is required to achieve, is organised to achieve it through the success of its management and is focused on ensuring it achieves its goals and objectives.

Governance is about ensuring the long-term success of an organisation. This includes:<sup>i</sup>

1. **Understanding success** (*clarity of purpose*) - Those in control of an organisation need to be clear about what the organisation is to achieve, its SMART (specific, measurable, achievable, realistic, and timed) objectives and being able to communicate that effectively across the organisation. This involves the establishment of a clear sense of purpose and the development of clear expectations of performance.
2. **Organising for success** (*organisational structures*) - Once an organisation has developed a clear understanding of what it needs to achieve, it should be organised or structured appropriately through the design and implementation of appropriate *organisational structures* for the delivery of client-centred services. In addition, delegated power needs to be limited to manage risk associated with decision-making.
3. **Ensuring success** (*accountability frameworks*) - Governance is about ensuring individuals accountable for performance understand clearly what outcomes they are required to achieve. As such, organisations need to develop transparency and accountability mechanisms and frameworks that **overlay** *organisational structures*, linking accountability to performance, reporting and review.

This discussion paper presents ideas addressing *organisational structures* and *accountability frameworks* - to be outcomes-/service-centric, organised around inter-departmental and inter-organisational dependencies and based on collaborative approaches. The integral role of risk management is to enable organisations to achieve their key objectives will also be discussed.

The definitions used in this discussion paper are as follows:

- **Accountability** A measure of answerability (providing a clear account for and reporting against actions undertaken), which differs from responsibility, which is the requirement to perform an action. Accountability includes the processes for monitoring, review and reporting.
- **Governance** The manner in which an organisation is directed and controlled to achieve its objectives.<sup>ii</sup>
- **Monitoring** Continual checking, supervising, critically observing or determining the status in order to identify change from the performance level required or expected.<sup>iii</sup>
- **Review** Activity undertaken to determine the suitability, adequacy and effectiveness of the subject matter to achieve established objectives.<sup>iv</sup>
- **Risk Management** Co-ordinated activities to direct and control an organisation with regard to risk.<sup>v</sup>
- **Risk** Effect of uncertainty on objectives.<sup>vi</sup>

## 2. Understanding success

Governance should establish appropriate structures and behaviour to enhance the capacity of organisations to achieve greater clarity in their relationships and in aligning expectations with performance.

While there is no single model of good or effective governance, there are a number of common elements that underlie good governance. Figure 1 illustrates the four main integrated elements and its sub-components. It illustrates how all elements and sub-elements integrate and interact together, enabling an organisation to achieve its objectives.

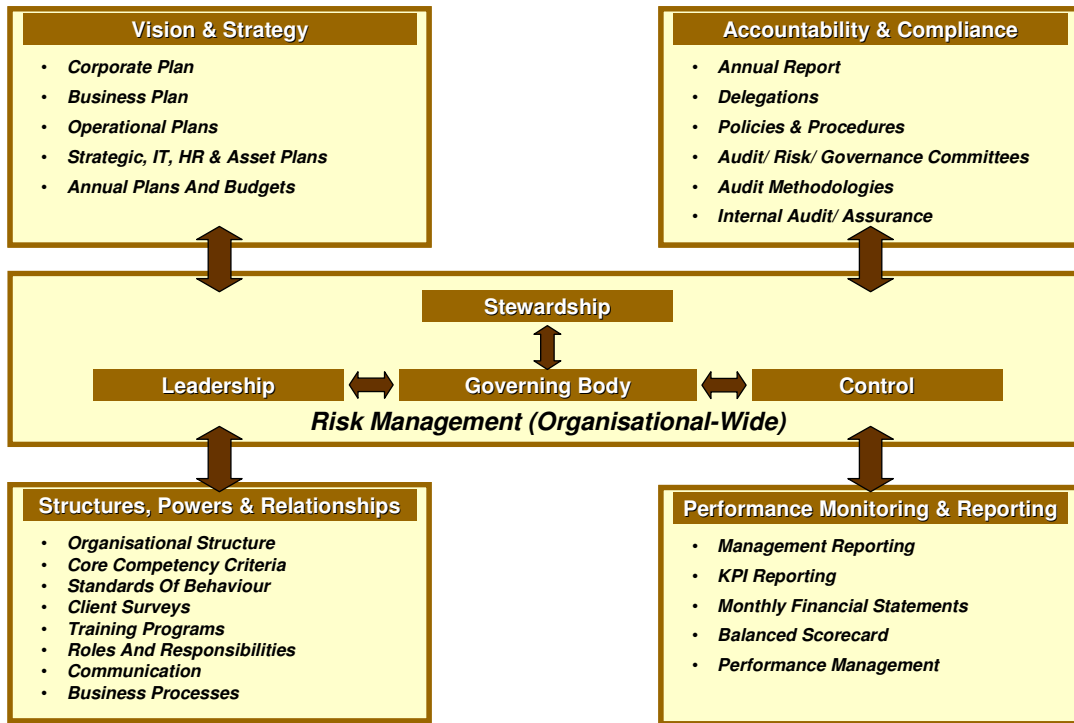


Figure 1: Common elements of good governance<sup>vii</sup>

The starting point for **understanding success** is in the organisation's objectives, encapsulated within their vision, strategy and planning documents. Organisations need to have 'good' SMART (specific, measurable, achievable, realistic and timed) objectives. From SMART objectives, individual performance measures and quantifiable targets can be developed.

Measures and targets are important as "what gets measured gets managed" and done. Using management tools including the balanced scorecard, top-level objectives, performance measures and targets can be systematically cascaded and aligned across the organisation, right down to each individual at each organisational level.

To be successful, power as encapsulated in delegation limits instrument must be in existence, appropriately delegated, limited and exercised. Power frameworks will influence the efficiency and effectiveness of decision-making and the capacity of decision-makers to produce quality outcomes for the organisation.

The approach to risk management will be addressed further in Section 5 "*Linking risk with strategy and objectives*" of this discussion paper.

### 3. **Organising for success**

In this section, we address how organisations could be structured to better support good governance, delivery of client-centred services and implementation of organisational objectives and strategies. It must be noted however that, in reality, the ability for organisations to change or amend their *organisational structures* may be limited, for various reasons. Boards, regardless of *organisational structures*, must however be confident that the *accountability frameworks* that **overlay** their *organisational structures* allow for effective monitoring and reporting by accountable persons.

No single organisational structural design and implementation will fit all situations. There are, however, common principles that health care organisations should consider:

1. Governance is about ensuring the success of an organisation. **Effective governance** is the presence of governance in the most appropriate form.
2. **Accountability** is a core principle of governance as it clearly links power and responsibility for performance.<sup>viii</sup>
3. **Manage client-centred care** - Decisions, tasks, and workflows crucial to optimising client care must be the organisation's primary focus.
4. **Reorganise resources** – Overlay existing or redesigned *organisational structures* with effective and efficient *accountability frameworks*.

Traditionally, health services are organised around programs and disciplines. Clients do not always access health services seeking specific services such as nursing services, radiology, or physiotherapy. Clients want health services to manage their condition, illness or injury, end-to-end. A potential result in this traditional model is the development of high-quality individual departments which may not integrate well from a whole-of-organisation perspective to deliver the 'best' client outcomes.

As such, client care delivery consists of a myriad of different types of activities:

1. Across organisational boundaries or departments (inter-departments, whole-of-organisation perspective), and
2. With external organisations and partners (inter-organisational, whole-of-health perspective).

By organising care delivery around the needs of clients (an idea more radical than it sounds), health services are able to raise the quality, efficiency, and value of services they provide to their clients. Client-centred approaches also assist organisations to measure their performance by how their clients actually fare from the services they receive.

From a governance and whole-of-organisation perspective, organisations ideally need to have *organisational structures* that hold individuals accountable for their actions, thereby promoting teamwork and co-operation across organisational and/or external boundaries. The challenge is to move toward practical *organisational structures* that better support the execution of strategies that delivers a truly client-centred care along the continuum of care, from an intra-organisational and/or inter-organisational perspective.

When there is clarity in accountabilities, monitoring and reporting, accountable individuals (and committees) can effectively monitor and report against agreed performance measures and targets. Performance reporting becomes easier and clearer.

Section 4 "*Ensuring success*" of this discussion paper and Case Studies 2 and 3 will demonstrate how the design and implementation of *organisational structures* may impact on the following:

- Accountabilities, monitoring and reporting capabilities of individuals and committees, as encapsulated in the organisation's *accountability frameworks*.

- Effectiveness of the organisation's governance, compliance and risk management frameworks, as encapsulated in the *organisational structures*, powers and relationships.

## Case Study 1 - Re-engineering organisational structure for success

### The strategic plan

The strategic plan of this case study health care organisation includes, among other existing objectives, three new major objectives/ initiatives:

- Develop chronic disease management, drug and alcohol areas as distinctive, market-leading programs.
- Expand ambulatory care strategy to include new facilities in two markets within their primary service area.
- Significantly upgrade quality and client safety throughout all facilities.

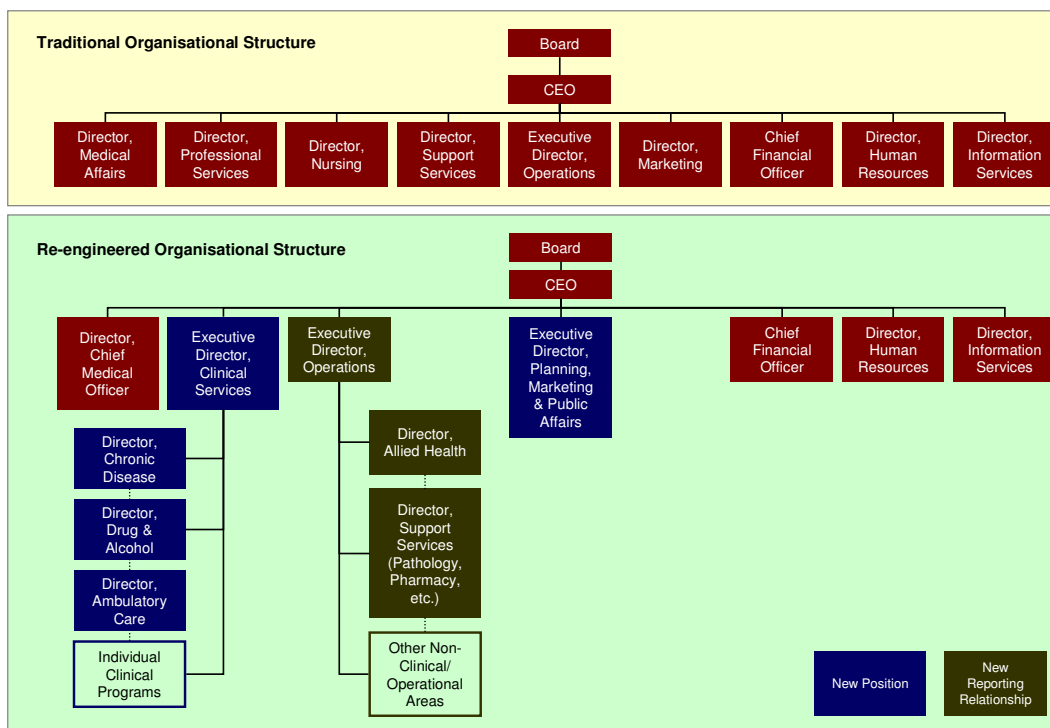
### Organisational structure

Typically organisational structures encompass client care functions, client care support functions, and corporate administrative support functions. In this Case Study 1, the leadership team responded to a revision in the organisation's strategic plans by re-designing their *organisational structure*.

The current client care function was organised by Departments (e.g. nursing, counselling). This structure only optimises performance within narrowly-focused Departments and does not respond well strategically to the organisation's business, which requires provision of high-quality care to clients across multiple programs and facilities, and across organisational boundaries.

The new, revised strategy shifts or drives the organisation's major spheres of organisational accountabilities and reporting, prompting an enhanced structure that reflects these new objectives:

- Having a *Director, Ambulatory Care* dedicated to the growth of ambulatory care centres, with line accountability for staff in these sub-areas.
- Program manager (e.g. *Director, Ambulatory Care*) for each major program that is directly linked to an *Executive Director, Clinical Services*. The program managers are fully accountable for program development and profitability, and reports directly to management. (Refer to Case Study 3)



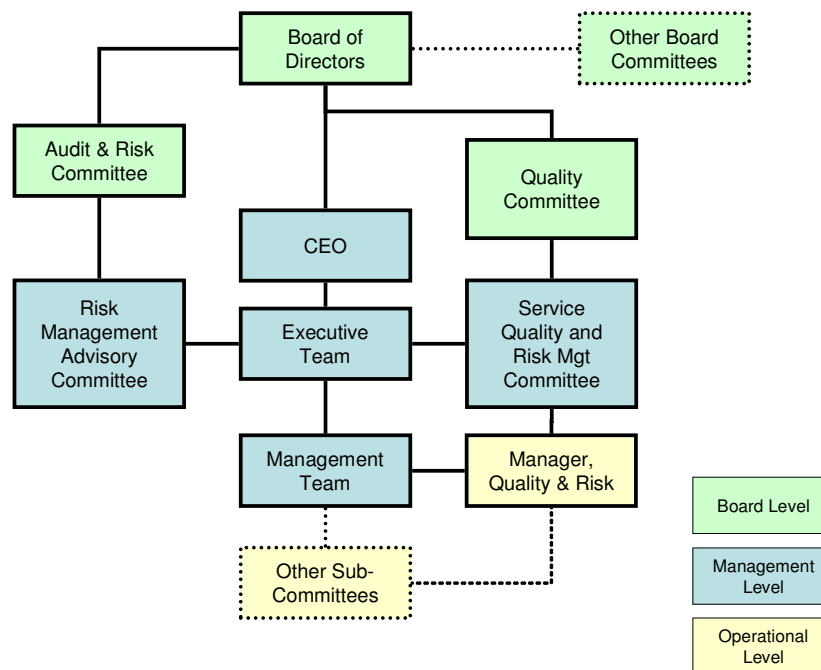
#### 4. Ensuring success

Health care organisations that successfully execute strategies share a key common element. That is, **an effective organisational structure that fosters accountability of individuals** (and committees).

It may be timely for organisations to consider conducting a governance review, which is an extensive analysis of the governance practices of the organisation and how well they support the organisation's stated objectives.

Irrespective of the structures in place within an organisation, a well-designed *accountability framework* ensures effective monitoring and reporting against key performance indicators by accountable individuals (and committees). When there is little accountability at the individual (and committee) level, confusion, blame, finger pointing, passing the buck and conflict avoidance may arise, especially when it involves service deliveries to clients.

#### Case Study 2 - Traditional accountability framework



Audit and Risk Committee - A sub-committee of the Board that assists the Board in carrying out its risk management oversight responsibilities.

Quality Committee – A sub-committee of the Board that assists the Board in monitoring and reviewing quality and safety.

Risk Management Advisory Committee - A management committee accountable for improvement of risk management practices within the organisation, reporting to the *Audit and Risk Committee* and *Executive Team*.

Service Quality and Risk Management Committee – A management committee responsible for monitoring, managing and providing recommendations to the *Quality Committee* to enhance the quality and safety of the services provided by the organisation's staff.

Manager, Quality and Risk - To provide advice, facilitation, co-ordination, guidance and assistance to management and staff on quality and risk management processes within the organisation.

From Case Study 2 above, it is interesting to note the following:

- The Board *Quality Committee* does not interact directly with the Board *Audit and Risk Committee (ARC)*. There are common board members sitting on both committees. This effectively means that "clinical risk", "clinical risk management"<sup>xix</sup> and "clinical governance" issues/ matters may not be reviewed by the ARC, thereby limiting ARC's effectiveness in carrying out its Terms of Reference.
- Similarly, at the management level, the *Service Quality and Risk Management Committee* does not interact directly with the *Risk Management Advisory Committee (RMAC)*. There are common members sitting on both committees. This effectively means that "clinical risk", "clinical risk management" and "clinical governance" issues/ matters may not be considered by the RMAC, thereby limiting RMAC's effectiveness in carrying out its Terms of Reference.
- At the operational level, the *Manager, Quality and Risk* does not report directly to both the *Risk Management Advisory Committee* and the *Quality Committee*, thereby limiting the manager's effectiveness in managing: (i) organisational-wide risks (clinical and non-clinical); and (ii) risk management processes and practices.
- There are two applicable risk management policies for this Case Study organisation: (1) an organisational-wide *Risk Management Policy*; and (2) a separate *Clinical Risk Management Policy*. The organisational-wide *Risk Management Policy* generically talks about risks without any distinction being made between non-clinical and clinical risks. However, in the *Clinical Risk Management Policy* document, "clinical risk management" is only concerned with the prevention, monitoring and prompt management of clinical incidents. There is uncertainty in terms of how staff can reconcile the two policies dealing with overlapping categories of risk (clinical and non-clinical risks).

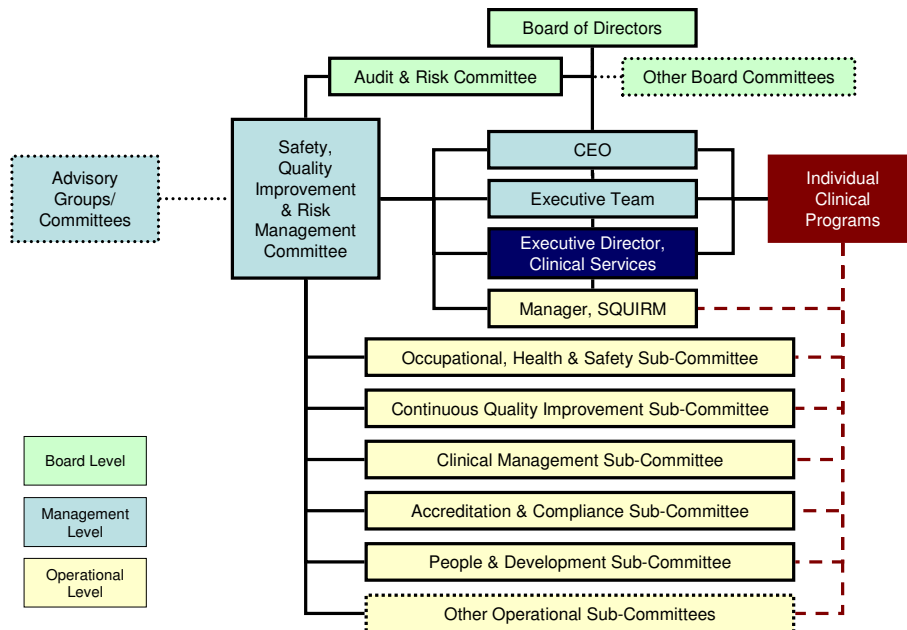
Case Study 3 below addresses the accountability, monitoring and reporting gap issues, as identified in Case Study 2. One key difference between Case Studies 2 and 3 is the formation of a **single multi-disciplinary management committee** (the *Safety, Quality Improvement and Risk Management Committee*) that receives consolidated reports and information (of quality, safety and all key/ high risks) from all operational sub-committees.

The Case Study 3 organisation has an integrated *SQUIRM Committee* (SQUIRM – Safety [staff and client], Quality Improvement and Risk Management [clinical and non-clinical risks]). The Terms of Reference of the *SQUIRM Committee* includes implementation and oversight of the following policies and procedures:

- Governance framework (that also covers "clinical governance framework"<sup>xx</sup>).
- Assurance/ audit/ compliance frameworks.
- Risk management framework.<sup>xi</sup>
- Single organisational-wide *Risk Management Policy*<sup>xii</sup> (including clinical risk).
- *Risk Management Plan*<sup>xiii</sup>.
- *Occupational, Health and Safety Policy*.
- *Quality Improvement Policy*.

From these Case Studies, the issues of accountability must overlay the design and implementation considerations of *organisational structures* (as shown in Case Study 1). This ensures that individuals are held accountable for their performance through the appropriate *organisational structures*.

### Case Study 3 - Enhanced accountability framework



**Board of Directors** – Provide strategic direction for risk management in oversight of the implementation of policy and objectives, and provide guidance on the risk tolerance for the organisation with respect to decision making.

**Board Audit & Risk Committee** – Responsible for reviewing the integrated governance, compliance and risk frameworks across the organisation (includes clinical and non-clinical risks).

**Safety, Quality Improvement and Risk Management (SQUIRM) Committee** – Responsible for reviewing all types of risk (clinical and non-clinical) and report to *Audit and Risk Committee* and to the *Board of Directors*. The management committee assists the Board in fulfilling its responsibilities in relation to promotion and maintenance of quality of care in the delivery of clinical and non-clinical, and corporate services across the whole organisation. SQUIRM's responsibilities include:

- Periodically reviewing the organisation's *SQUIRM Policy* and recommends any changes.
- Maintaining, developing and refining *SQUIRM*.
- Regularly reviewing and updating the *Organisational Risk Register*.
- Monitoring and advising on the development of a risk audit schedule.
- Monitoring alignment between the *Organisational Risk Register* and Operational Plans.
- Ensuring that operation plans address issues on the *Risk Treatment Plans*.
- Advising the Executive Team on actions that should be taken to continuously improve *SQUIRM*.

**Manager, SQUIRM** - Responsible for development and implementation of the integrated *SQUIRM Policy* (covering both clinical and non-clinical areas), provides oversight and monitors implementation throughout the organisation at all facilities. The role is also responsible for co-ordinating and participating in staff educational and training programs related to governance, risk and compliance.

From Case Study 3 above, individual program managers (accountable for each program area) report:

- Directly to the *CEO, Executive Team and Management Team*;
- Directly to the *Executive Director, Clinical Services* (see Case Study 1), and
- Indirectly or functionally to the appropriate operational sub-committees (e. g. *Occupational, Health & Safety Sub-Committee, Clinical Management Sub-Committee and Accreditation & Compliance Sub-Committee*) and the *Manager, SQUIRM*.

## 5. Linking risk with strategy and objectives

Risk, whether associated with an opportunity or a threat, is part of each objective at all levels of any organisation. This reflects the intent of the definition of 'risk' in *AS/NZS ISO 31000:2009 Risk Management – Principles and Guidelines*, which defines risk as "the effect of uncertainty on objectives". Strategic or corporate objectives are systematically developed from an organisation's strategy, as shown in Figure 2.

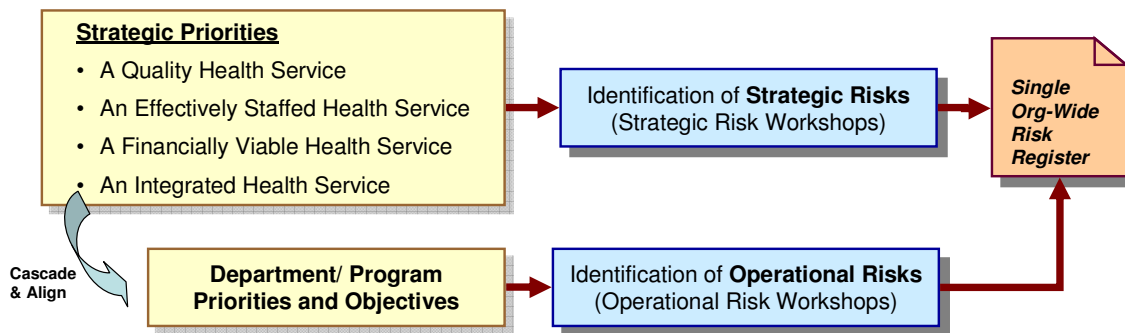


Figure 2: Cascading objectives and risk identification

From strategic objectives or priorities, strategic risks are identified. Strategic objectives are cascaded and aligned throughout the organisation, and mapped and allocated as operational and/or Department objectives. Not all strategic objectives are applicable to all Departments. Operational risks are identified from operational objectives. Both strategic and operational risks are documented in the organisation's risk register.

The key to integration of risk management process with effective decision making within an organisation is the realisation that the purpose of risk management is not risk management *per se* but the achievement of objectives. Organisations need to avoid developing disparate risk management frameworks and processes that do not fully integrate. Risk management must be integrated as part of normal business practice and decision making processes, especially from a whole-of-organisation perspective.

Given that risk management touches all areas of an organisation (clinical and non-clinical, corporate and operational), it can be difficult to compare different classes of risks. For example, a technical risk identified within a major program may also impact on an organisation's marketing strategy, or a schedule change in a new program may impact on operational resources to maintain old systems and equipment. An occupational, health and safety (OHS) risk may also impact on the ability to deliver client services.

As a result, risks may be imperfectly classified as either 'clinical' or 'non clinical'. This may understate the importance of non-clinical risks (e. g. corporate, business risks). For example, failure in client admissions process can have impacts on client safety. Admissions may be a process that is reliant on IT systems and administrative support staff.

## 6. Summary

Health care organisations can be effective in delivering client-centred services throughout the continuum of care by having an integrated and whole-of-organisation and whole-of-health approach to governance. This requires **clarity of purpose** or SMART objectives, enabled by practical or appropriate **organisational structures**, overlaid with efficient and effective **accountability frameworks**.

The following needs to be understood:

- Governance is a guidance system for the delivery of client-centred care throughout the continuum-of-care and the achievement of all planned objectives for the organisation.
- The essence of good or effective governance is accountability. When individuals and committees are held accountable for their actions, there is effective performance management and achievement of objectives. By objectively measuring performance and reporting against agreed performance measures and targets, there is clear accountability for the delivery of client-centred services. Reporting against performance measures for each objective is also a report on the effectiveness of organisational strategies, objectives, controls and the risk management process for that objective.

Boards and management should review their *organisational structures* to determine how well existing structures support the effective and efficient delivery of client-centred services, and the execution and monitoring of key strategic objectives. Overlaid on the consideration of *organisational structures* is the need to ensure that the organisation's *accountability frameworks* address any limitations and accountability gaps.

Finally, effective risk management enhances sound governance through planning and controlling for the uncertainty that can impact upon the delivery of client-centred services.

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<sup>i</sup> The Uhrig Report, Review of the Corporate Governance of Statutory Authorities and Office Holders, Commonwealth of Australia, 2003, p.37.

<sup>ii</sup> Corporate Governance, Beyond Compliance. Audit Report No. 7, 1998-99. Queensland Audit Office, June 1999.

<sup>iii</sup> ISO Guide 73:2009 Risk management – Vocabulary.

<sup>iv</sup> ISO Guide 73:2009 Risk management – Vocabulary.

<sup>v</sup> ISO Guide 73:2009 Risk management – Vocabulary.

<sup>vi</sup> ISO Guide 73:2009 Risk management – Vocabulary.

<sup>vii</sup> Adapted from Victorian AG Office (VAGO), Annual Report 2003-2004, p.35.

<sup>viii</sup> Governance requires individuals responsible for performance to understand what outcomes they are to achieve and that they are provided with the capacity to achieve them. The system for oversight should include objective and critical judgement in relation to performance and standards against which decision-makers can be assessed. When decision-makers deliver outcomes that do not align with expectations, there should be adequate oversight processes to hold them accountable. This requires relevant, verifiable and timely financial and non-financial data to be available to those delegating power.

<sup>ix</sup> AS/NZS ISO 31000:2009 draws a distinction between the expressions "risk management" and "managing risks". In general, "risk management" refers to the architecture (principles, framework and process) for managing risk effectively, while "managing risks" refers to applying the architecture to particular risks. Within the context of health care, the expression "managing of clinical risks" should be preferred over "clinical risk management" as there can only be one over-arching governance and risk management framework within the same organisation, and risk assessment should be conducted by multi-disciplinary teams covering both non-clinical and clinical risks. Similarly, the use of "corporate governance" should be preferred over the use of "clinical governance" for the entire health care organisation.

<sup>x</sup> Incorporating the *Victorian Clinical Governance Policy Framework* (2009).

<sup>xi</sup> **Risk management framework** is defined as "set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the organisation"- ISO Guide 73:2009 Risk management – Vocabulary.

<sup>xii</sup> **Risk management policy** is defined as "statement of the overall intentions and direction of an organisation related to risk management" - ISO Guide 73:2009 Risk management – Vocabulary.

<sup>xiii</sup> **Risk management plan** is defined as a "scheme within the risk management framework specifying the approach, the management components and resources to be applied to the management of risk" - ISO Guide 73:2009 Risk management – Vocabulary.