The Future of Healthcare Governance Meeting Board Challenges in Unforgiving Times!

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James Young ,Chairman Virginia Mason Medical Center Board of Directors

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- Industry Leaders Interviewed
 - Themes:
 - Board Size
 - Complex Clinical Enterprises
 - Enterprise Risk Management
 - Composition
 - Diversity
 - Transparency
 - CEO Succession
 - Continuous Improvement
 - Scarcity of Directors
 - Compensation
 - Accountability
- Questions & Discussion
- Articles of Interest

The Future of Healthcare Governance



Industry Leaders Interviewed

- Dennis Barry, FACHE, CEO Emeritus Moses Cone Health System
- Howard Berman, LFACHE, Former President/CEO; Excellus Blue Cross
- Fred Brown, LFACHE, Former CEO; BJC Health System
- ▲ John Coleman, COO, NCI Consulting
- Michael Connelly, FACHE, President/CEO Catholic Health Partners
- Vince Conti, Former CEO; Maine Medical Center
- Duane Dauner, FACHE, President/CEO; California Hospital Association

- Tom Dolan, FACHE, President/CEO; American College of Healthcare
- David Fine, FACHE, President/CEO; St. Luke's Episcopal Health System
- Teri Fontenot, FACHE, President/CEO; Woman's Hospital
- ▲ Jeff Fried, FACHE, President/CEO Beebe Medical Center
- Michelle Hood, FACHE, President/CEO; Eastern Maine Medical Center
- Gary Kaplan, M.D., President/CEO; Virginia Mason Health System
- Bill Kelley, HFACHE, Chairman Emeritus; Hill-Rom Co Inc.

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Industry Leaders Interviewed

- John King, LFACHE, Chairman Emeritus; Legacy Health System
- John Lloyd, FACHE, President/CEO Meridian Health Systems
- Steve Loebs, Ph.D., Former Chairman, Graduate Program in Health Services Management; Ohio State University
- Bruce McPherson, President and CEO Alliance for Advancing Nonprofit Health Care
- Jim Mead, Former President/CEO; Capital BlueCross
- Mark Neaman, FACHE, President/CEO NorthShore University HealthSystem
- Scott Parker, LFACHE, Former CEO; Intermountain Health Care System

- Doug Peters, Former President/CEO; Jefferson Health System
- David Ramsey, LFACHE, President/CEO Charleston Area Medical Center Health System
- Tom Sadvary, FACHE, President/CEO Scottsdale Healthcare
- J. Knox Singleton, President/CEO
 Inova Health Systems
- Glenn Steele, M.D., Ph.D., President/CEO; Geisinger Health System
- Richard A. Umbdenstock, FACHE; President/CEO American Hospital Association
- Don Wegmiller, FACHE, Chairman Emeritus; Integrated Healthcare Strategies

The Future of Healthcare Governance



CHANGE

"Every few hundred years, throughout Western history, a sharp transformation has occurred. In a matter of decades, society altogether rearranges itself: its world view, its basic values, its social and political structures, its arts, its key institutions. Fifty years later, a new world exists, and the people born into that world cannot even imagine the world in which their grandparents lived and into which their own parents were born. Our age is such a period of transformation."

Peter Drucker, "Managing in a Time of Great Change"





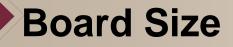
THE FUTURE OF HEALTHCARE GOVERNANCE

Meeting Board Challenges in Unforgiving Times!



"He who uses a crystal ball, eats a lot of ground glass."







- Healthcare boards will become smaller and fewer in number
- Most boards are still too big!
- Larger boards mean -
 - More "social loafing"
 - Less accountability
 - Less sense of ownership
 - Less active discussion and engagement
 - Less preparedness for meetings
 - Less director satisfaction
 - Less nimble; slow to take action
- Pressure to improve governance performance will lead to smaller boards

Complex Clinical Enterprises



- Boards will govern larger and more complex clinical enterprises
 - Drivers
 - Consolidation in the industry (payers and providers) will accelerate: Scale Matters!
 - Economic pressures
 - Revenue constraints
 - Margins squeezed
 - Sales tax/property tax exemption issues
 - Increased focus on the entire continuum of care
 - Hospital physician integration
 - Accountable Care Organizations
 - Insurance risk integration
 - ✓ Managing the health of defined populations

This transformation will serve as a catalyst to upgrade governance

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Enterprise Risk Management



Boards will embrace enterprise risk management

- Strategic
- Operational
- Financial
- Compliance
- Security
- Drivers -
 - Fewer economic safety nets
 - Physician hospital integration
 - Size and complexity of the enterprise
 - Electronic Health Records (data breeches)
 - Pressure for reporting quality metrics may result in more fraud!

Enterprise Risk Management



- Drivers (cont'd)
 - HIPAA privacy and security risks
 - High turnover of personnel
 - Outsourcing of services
 - Changes in economic, political, regulatory and social landscape
 - Risk of the "unexpected crisis," e.g.,

AHERFNY Hospital for Special SurgeryAllinaParkland Health and Hospital SystemBeebe Medical Ctr.Penn StateFairviewUniv. of Miami School of MedicineHighmarkUniv. of Texas Southwestern Med. Ctr.





Responsibility for risk oversight lies with the full board with an intense focus on Value Killers!

> What don't we know. . . . that we should know?





- Boards will include directors with more sophisticated skills, e.g., Business, Finance, IT, Marketing, Systems integration, Clinical, Population health, chronic illness care, public health, epidemiology, etc.
 - 🛛 Drivers
 - Increased focus on the clinical enterprise
 - More CEOs will be physicians or have other clinical background
 - Patient centeredness
 - Quality and safety

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- Drivers (cont'd)
 - Emphasis on *director independence, "outside*" directors, *"industry experts"*

- Focus on:
 - ACA requires hospitals to conduct community needs
 assessments every three years with implementation strategies
 - Physician integration
 - Insurance risk, e.g., shift to pay-for-performance, bundled payments, population-based payments





Accountability for the health status of defined populations is where we are headed

Board composition is driven by Vision & Strategy of the enterprise

Diversity



Boards will become more diverse

- Racial
- Gender
- Ethnic
- Geographic

Drivers –

- Vision, strategy & demography
- Social pressures
- Recent presidential election results (America.....the new "melting pot")
- Watch *Europe's* push for mandatory quotas for women
- Quotas are law in France, Spain, Netherlands, Norway, Belgium and Italy





- Diversity helps the board to
 - Better understand the issues faced by the organization
 - Have a mix of perspectives to *deliberate the strategic imperatives* of the enterprise
- Diversity will only happen . . . when board leadership makes it a priority
- But . . . finding directors with right skills and experience continues to be a top priority!





Boards will become more transparent

Drivers –

- Internet and 24/7 media attention
- *New* IRS *Form 990*
- Hospital Compare CMS quality data initiative on 4000 hospitals
- Physician CMS Quality Reporting Program
- Aggressive States Attorneys General
- Pressure from government, consumer and purchaser groups

Transparency



- Drivers (cont'd)
 - Disclosure mandates; e.g., executive compensation
 - Non-binding *resolutions*; e.g., "Say on Pay"
 - The public will demand it!
 - Transparency around quality, safety, customer service, pricing
 - Need to demonstrate the "Value Proposition" for the community; i.e.,
 - ✓ Wellness and disease prevention
 - Better health outcomes/better patient experiences/ lower costs





Transparency builds trust inside and outside the organization!

If you have nothing to hide... transparency is not an enemy!





• CEO succession will become more of a priority

Less than 20% of hospitals and health systems have a good succession plan in place

Drivers -

- CEO turnover at an all-time high
 - Nearly 1 in 4 hospitals has had 3 or 4 CEOs in the past five years
- 40% of new CEOs fail within 18 months
- A **poor choice of CEO** can be **costly and embarrassing**
 - **CEOs** recruited **from outside retain ≤ 30%** of senior executives
 - **Boards are** being held **accountable** for the **failure** of their CEOs
- Limited pool of highly-qualified CEO candidates

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- Good governance requires it!
- High-performing organizations have good track records of promoting from within
- Succession planning is a *fundamental responsibility of the board*
- Successful transitions rarely just happen; they require careful planning by the Board and the CEO

Continuous Improvement



Best practices will become the norm

Drivers -

- **Pressure on performance** of the **enterprise** from:
 - ✓ Debt rating agencies
 - Government
 - States Attorneys General
 - Joint Commission
 - Insurance companies
- Changing *regulations*
- Risk of liability
- Risk of *embarrassment*
- Board education
- Public expectations





- Ongoing evaluation and improvement using "hard metrics" as a critical path to excellence
- More robust governance committees will drive adoption of best practices
- High performing boards will promote "intentional governance" that embracing best practices

Scarcity of Directors



- Highly-qualified directors will be difficult to find
 Drivers -
 - Board work *requires more time* than ten years ago
 - New rigors and risks of board membership
 - Personal *liability* concerns
 - More scrutiny re: "conflict of interest issues"
 - More CEOs consumed in their "day jobs"
 - Board-imposed limits on outside board participation
 - Reputational risk hospital/health system scandals

AHERF	Parkland Health and Hospital System
Allina	Penn State
Enron	Univ. of Miami School of Medicine
Fairview	University of Texas Southwestern Med. Ctr.
Highmark	





More boards of larger health system will compensate directors

Drivers –

- **Time** commitment **required**
- A limited pool of highly competent candidates
- Increasing focus on *independence*
- Need to recruit directors who posses unique skills
- The *value* of appointing *"outside directors"/industry experts*
- Competition for best candidates





- The decision of whether to compensate is unique to the culture of every organization and should be carefully considered before deciding
- The real value in compensating directors is in the "social contract" it establishes with the board

Accountability



Boards will be more accountable for the performance of the enterprise

- Cost
- Quality
- Safety
- Community benefit
- Population health
- Drivers
 - ACA
 - ACO's
 - More transparency

Accountability



Drivers (cont'd)

- Government agencies
- Regulators
- Joint Commission
- Rating agencies evaluating debt
- Insurers writing D&O insurance
- More assertive and discerning consumers





- Accountability requires boards to look at all elements of the operation from a risk perspective
- Hospital and health system boards will incur increasing scrutiny relative to their performance and best practices!

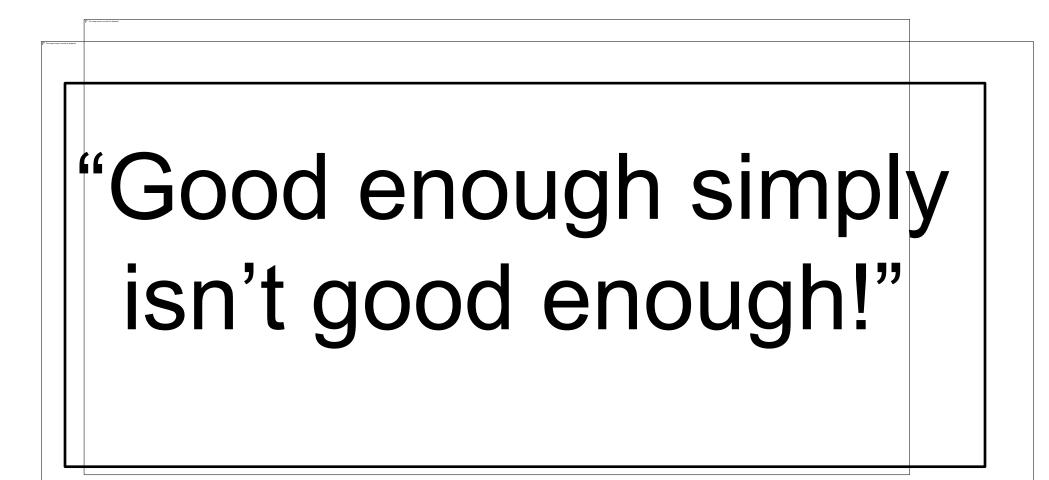


CONCLUSION

"Boards (will) need to assure they have a robust capacity for regular self examination and willingness to change ahead of any major crisis so they can lead their organizations as the industry around them transforms."

Futurescan 2013







QUESTIONS AND DISCUSSION



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