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

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HEALTHCARE STRATEGIES[SM]

Agenda

- ***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***

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.

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

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.”

Board Size

- **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***

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.,

AHERF	***NY Hospital for Special Surgery***
Allina	***Parkland Health and Hospital System***
Beebe Medical Ctr.	***Penn State***
Fairview	***Univ. of Miami School of Medicine***
Highmark	***Univ. 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?***

Composition

- ***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***

Composition

- ***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

Composition

- ***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

- ***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!***

Transparency

- **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

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- ***Transparency builds trust*** inside and outside the organization!
- ***If you have nothing to hide. . . . transparency is not an enemy!***

CEO Succession

- ***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

CEO Succession

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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***

Continuous Improvement

- ***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	

Compensation

- **More boards of larger health system w*ill 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***

Compensation

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- 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

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

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- ***Accountability requires boards to <u>look at all elements</u> 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

"Good enough simply isn't good enough!"

QUESTIONS AND DISCUSSION

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