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

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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 Loeb, 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 Health System
- 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
"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
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**
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!
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. |
Enterprise Risk Management

- **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
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.
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*
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

♦ 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
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
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**
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 possess 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
Drivers (cont’d)

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

- 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
“Good enough simply isn’t good enough!”
QUESTIONS AND DISCUSSION
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