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Ten Trends That Will Shape Healthcare Strategic Priorities in 2015

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The healthcare landscape of 2015 will be shaped by changing economic, political, competitive, regulatory, demographic, technology, consumer, and other factors. This will impact hospitals, health systems, physicians, and other stakeholders financially, clinically, and operationally. The 10 trends selected for this article are the result of our experience nationally with board members, physician leaders, and senior executives from healthcare organizations of all different types and sizes. Please consider the potential impacts of these trends on your organization for policy decisions, as well as strategic and financial plans in 2015.

1. Physician Engagement: Partners with Aligned Incentives

New care models and payment methodologies associated with healthcare reform, clinical integration, and population health management will require more tightly aligned financial and clinical incentives between hospitals and physicians. Initiatives in these areas must be physician-led to achieve sustained success clinically and financially. The trend of employing physicians will continue for most hospitals and health systems (some estimates anticipate upwards of 70 to 80 percent of physicians could be in employed arrangements with hospitals medical groups, health plans, or other healthcare entities in the next five years).

In the boardroom:
- Are your clinical integration and care model redesign initiatives physician-led?
- Is your hospital/system aligning with the “right” physician partners? How do you know?
- Does your hospital/system monitor individual physicians based on cost and outcomes metrics?
- Does your hospital/system have a method and plan for effectively integrating new and acquired physicians into the culture and care delivery models of the organization?
- How effectively does the organization engage physicians today? What measures and indicators does the board see to validate this?
- Are physician and hospital incentives aligned across the care continuum?

2. Revenues, Operating Costs, and Financial Sustainability

In spite of the current positive general economic situation, rating agencies have recently declared the outlook for the non-profit healthcare sector as negative. Many factors contribute to this, including weak hospital top-line growth, static inpatient volume expectations, declining operating margins, and current and expected revenue impacts of healthcare reform. Compounding this further are ACA cuts, sequestration, and reimbursement changes from value-based payment methodologies. A renewed focus on reducing...
operating costs is essential in 2015 to achieve financial sustainability. Many hospitals/systems should target reducing operating costs by an additional 5 to 8 percent over the next two years, focusing on reducing duplication, non-clinical staff, and non-core expenditures; streamlining processes; maximizing group purchasing; eliminating waste; and other activities.

In the boardroom:
- Has your organization achieved breakeven on Medicare reimbursement yet?
- Closely monitor key financial and operating metrics (e.g., payer mix, bad debt, supply expenses, salaries/wages/benefits, FTEs, financial performance of ambulatory services, and employed physicians).
- Have you begun to monitor covered lives (defined populations) and cost of care per episode?
- Does your finance team monitor indicators of the rate of change from fee-for-service to payment-for-value in your market and its impact on your financials?
- Are you prepared to reorganize services to align with evolving payment models?
- What is the organization’s long-term risk for access to capital? What options have been discussed to mitigate this risk?
- Is your finance team proactively addressing underperforming service lines, businesses, and other assets?

3. Care Model Redesign and Clinical Integration

Delivering high-quality healthcare in a cost-efficient way is the primary objective of redesigning care models and clinically integrating providers. One medical executive with significant population health management experience explained the philosophy that created success for their group when he stated, “An inpatient admission is the failure of outpatient care until proven otherwise.” This approach to care provides a framework for processes, people, and resources to be deployed to achieve quality outcomes in the most cost-effective setting possible. 2015 will see more organizations (hospitals, medical groups, and others) create/join ACOs and clinically integrated networks. This expansion will require investments in infrastructure to support new systems and processes of care, the most significant of which will be for information technology to provide real-time access to relevant data in a timely manner.

In the boardroom:
- Does the board consider if the organization is transforming in concert with payment change?
- Are physicians actively and effectively participating in the care redesign process?
- Does the hospital/system have experience with bundled payments, shared savings incentives, global payments, ACOs, or direct employer contracts?
- How has the hospital fared under CMS’s value-based payment or readmission penalty programs?

4. Employer Exchanges and Health Plans

Employers in 2015 will focus on finding solutions to continuously increasing healthcare costs. Self-insured employers will look for options including direct contracts with providers, shared savings models, spending threshold guarantees, reference pricing for high-priced procedures (e.g., cardiac, orthopedics, cancer), and private exchange plans. Enrollment in public and private exchanges will increase in 2015 as people and companies are willing to experiment and explore new options for health insurance. Employers will continue to cost-shift to employees by offering plans with higher co-payments and deductibles, and by moving from defined benefit to defined contribution models.

In the boardroom:
- Does your hospital have contracts with plans that participate in public and/or private exchanges? What is the financial and clinical experience with these plans? Continuously monitor enrollment levels, inpatient/outpatient service use rates, payment rates, patient satisfaction, and future market potential for these contracts.
- Do you have any direct contracts with employers? How are these performing?
- Do you manage the healthcare of your own employees and dependents? If so, can you transfer this experience to other employers in your area?

5. Competitive Positioning: Consolidations, Affiliations, and Partnerships

2015 will see further consolidation in hospitals/systems, medical groups, ancillary services, health plans, and post-acute providers. Most consolidation will be driven by the need for critical mass, to fill gaps in the continuum of services offered, to reduce operating costs per unit, to streamline transitions in care, and to expand
geographic outreach. Some arrangements will be opportunistic to create financial, operational, and clinical synergies; others will be to ensure survival. We are now seeing many large “affiliations without merger” relationships among large systems. Many of these affiliations are in the form of clinically integrated networks among hospitals or systems that agree to align and share varying degrees of financial risk and clinical programs. They affiliate in order to design care models and processes that improve quality of care, reduce costs, standardize care based on best practices, and aggregate data to improve outcomes. These affiliations require less time and effort to create than full mergers, and participants do not give up control of their organizations nor merge assets, and can usually opt-out if needed. Some of these affiliations may lead to full-on mergers if the experience is successful and beneficial.

**In the boardroom:**
- Are there current competitors in your market that may become your partners in the future?
- Do you anticipate considering alignment with a partner at some point to create scale, increase geographic outreach, clinically integrate, improve access to capital, or for some other purpose?
- Do strategic discussions with the board objectively consider the pros and cons of affiliation or other alignment options?

6. Information Technology: Supporting New Care Models

2015 has been labeled by some as the time for hospitals and physicians to step up to the “third platform” of technologies use in healthcare delivery. This places emphasis on greater and more effective use of mobile devices and apps, social media, predictive analytics, and mHealth personal toolkits to connect patients to providers in direct, streamlined ways. Regarding traditional IT systems, 2015 will see significant further outlays of capital and human resources to achieve interoperability across electronic health record systems and data warehouses to better support new care and payment models. Investments will be required to create data warehouses and health information exchanges to support clinical integration and population health management. Competitive advantage will come from IT systems and big data if it can more effectively connect providers to one another and to their patients anytime, anywhere, on any device, with sub-second response time, securely.

**In the boardroom:**
- Have your IT investments to date generated the results and value that you need?
- Is your IT system and leadership in alignment with the objectives of supporting new care models, payment methods, and enhancing relationships among providers, patients, and other stakeholders?
- Does the organization have a clear vision, purpose, and plan for data management and use?
- Do your care model transformations consider new uses of technology to engage patients and support desired behaviors/outcomes?

7. Transparency and Accountability

There will be a greater push in 2015 for quality and pricing transparency as savvy consumers, employers, and others want to know what services will actually cost and to be able to compare pricing and quality across providers for a given procedure. CMS has started to release charge, payment (price), and quality information via its Medicare Provider Utilization and Payment Data files and its Hospital Compare and Physician Compare Web sites aimed at consumers. The CMS release of charge and payment data is one of the strongest efforts toward improving price transparency. Many states are making efforts to implement all payer claims databases, which will significantly boost price transparency efforts and consumerism for healthcare services. This, linked with the proliferation of high-deductible health plans, puts healthcare in the “retail” space like never before—price does matter. Price transparency must be inextricably connected to quality clinical outcomes as key variables in the value equation. Because of these factors, aligning costs, charges, and prices should be a major strategic focus for all hospitals in 2015.

**In the boardroom:**
- Understand your costs. If you are not cost accounting to the procedure level today, now is the time to start. This will not only enable price transparency, but will support the transition to population health models.
- Can management identify those services that are profitable versus those that are not profitable?
- For those services that are not profitable, understand why and if there is something the hospital can do differently from a cost (or revenue) perspective to change the profitability for those services.
- What strategies is management utilizing to engage your clinical and administrative staff to collaboratively improve quality and control cost?
- Has the chargemaster been analyzed or overhauled recently? Is there a consistent methodology for setting rates in the chargemaster? What external communication efforts have been implemented to educate the public and your patient base on the initiatives and the benefit to them?

8. Workforce/ Culture of Accountability

2015 will continue to see layoffs and right-sizing, especially in non-clinical staff in order to reduce operating costs. Going forward, the baby boomer effect will be felt as more skilled clinicians reach retirement age. Planning for replacements for these personnel must include an eye toward balancing skill mix, cost constraints, staffing ratios, and flat volumes. 2015 will also bring continuing unionization efforts, labor strife, and workforce actions throughout the year. When mergers and acquisitions occur, there will be downsizing in areas where there is duplication. It is essential to manage change effectively to preserve smooth operational functions, and to bolster morale among those left in place. Culture and accountability planning and management will be essential to the success of mergers and affiliations of all types of organizations, large or small. While some may still believe that “culture eats strategy for lunch,” our experience is that culture and strategy are inextricably connected, and one cannot be done well at the expense or neglect of the other.

In the boardroom:
- Each board meeting should address the questions: Do we have the right strategic plan? Is the strategic plan being implemented effectively? (If not, is the right leadership team in place?)
- Are metrics established and monitored to evaluate progress on achieving the organization’s strategic vision?
- Does leadership consistently champion a culture of excellence, innovation, and personal accountability at all levels of the organization?
- Are management incentives aligned with the board’s expectations for change and transformation?
- Are there succession plans for C-suite personnel, as well as for other leadership levels of the organization?

9. Population Health Management: Easier Said Than Done

One of the three basic elements of the Triple Aim is to effectively improve the health of populations. Nearly every strategic plan we read has one or more strategies related to population health management. Organizations that take this aim seriously will invest in infrastructure elements such as technology, data warehousing, predictive analytics, care models, care teams, and risk-based payment structures that align financial and clinical incentives for stakeholders. Physician leaders must drive the population health initiatives in order to be successful. Patient engagement strategies must be developed concurrently in order to create shared accountability for wellness, compliance, and maintenance of their health.

In the boardroom:
- Do you have physician leaders willing, skilled, and prepared to champion population health initiatives?
- Do you have a roadmap to guide your population health efforts toward appropriate payer and patient types (e.g., HMO, PPO, employers, bundled payment, Medicare Advantage, Medicare shared savings, and Medicaid)?
- Have you had a positive experience with managing risk and/or the health of a defined population (e.g., your own hospital employees and dependents)?

10. Governance

2015 will see many organizations grappling with board structure and governance issues. These issues often come to the forefront when organizations merge, align, form joint ventures, and create new enterprises with multiple members/owners. Boards will need to become more streamlined, strategically focused, and composed of individuals with specific knowledge, experience, and bases of representation. Systems must caution against the tendency to accumulate or form numerous boards (or board members) as new ventures or acquisitions are consummated. Too many boards can create a cumbersome, ineffective structure for decision making and accountability. Allowing additional board seats for each acquisition invites a culture of governance that feeds decision making based on individual interests versus decision making for the benefit of the enterprise. A highly effective, enterprise-specific board will become a significant competitive advantage as hospitals, health systems, ACOs,
clinically integrated networks, and other creative entities are formed with the intent of leading and succeeding in providing to consumers the most highly preferred healthcare services.

**In the boardroom:**
- What is your current mix of experience and representation among members of the board? Are there gaps that need to be considered to fill?
- How well positioned is the board to set effective policy and make sound decisions in the evolving environment?
- What process, policy, membership, or other changes to the board should be openly considered to ensure sustainability and success in the future?
- Is your board structure set up to facilitate accountability at the business-unit level, yet lead strategically from the enterprise level?

**Final Word/Next Steps**

The best use of this article will not necessarily be in the list of the 10 trends we have selected to cover. Rather, as you have reviewed it, ideas have likely come to you regarding trends and factors that are unique to your market and organization. Assess these ideas as to their potential impacts on strategic direction, operations, and clinical programs and services. Consider what your directors should discuss in your board meetings. As fiduciaries for your organization, your stakeholders place their trust in you to make decisions that result in a sustainable entity. 2015 provides the opportunity to deliver on that expectation to the fullest extent.

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