Strategic Planning and Positioning For Healthcare Reform

Objectives

- Discuss the implications of healthcare reform
- Examine inherent risks
- Understand the scope of Board responsibility
- Consider how board members can best respond to healthcare reform impact and meet their oversight responsibility

Outline

- Healthcare Reform’s Impact
- Organizational Risk
- Board Responsibility
- Strategic Plan
- Planning Process and Development of the Plan
- Oversight and Monitoring
- Summary
Today's Healthcare Environment ... The Perfect Storm

- Health Care Reform
- Uncertain Economy??
- Physician Alignment
- Technology
- Increasing Costs & Premiums
- Volume Changes
- Payor Mix
- Increasing Bad Debt
- Capital Crisis

Key National Implementation Dates

- 2012:
  - Hospital readmission data go public
  - Hospital and physician value based purchasing standards begin to be measured
  - Providers meeting criteria can be recognized as ACOs and can qualify for incentives bonus (no later than January 1 2012)
- 2013:
  - Bundled payment national voluntary pilot (5 year agreements)
  - Excessive readmissions for AMI, CHF, PN result in 1-3% penalty on ALL DRGs
  - Value based purchasing payments begin for doctors and hospitals
- 2015:
  - Hospital-acquired conditions are publicly reported by hospital, worst quartile get 1% reduction in Medicare rates by 2015
- 2016:
  - Bundled payment plan is submitted, becomes permanent
Key Initiatives and Their Implications

<table>
<thead>
<tr>
<th>INITIATIVE</th>
<th>TIMING</th>
<th>DESCRIPTION</th>
<th>IMPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare/Medicaid DSH</td>
<td>2013</td>
<td>Reduce Medicare reimbursement by $36 billion over 10 years. Hospitals need to take immediate steps to improve financial performance and prepare for increased requests for employment by providers.</td>
<td>Hospitals need to work together to manage patient care across the continuum and minimize costs by providing services in the &quot;best&quot; setting, avoiding unnecessary services and monitoring.</td>
</tr>
<tr>
<td>Reducing Hospital Readmission Rates</td>
<td>2012</td>
<td>Improve financial penalties on hospitals for “excess” readmissions for heart attack, heart failure, and pneumonia. Hospitals need to begin working with physicians now to implement improvements in patient care and clinical performance benchmarking and monitoring systems will be essential.</td>
<td></td>
</tr>
<tr>
<td>Accountable Care Organizations Pilot</td>
<td>2012</td>
<td>Groups of qualifying providers can form voluntary ACOs, sharing savings achieved for the Medicare program would be shared with providers achieving the ACO quality targets. ACOs will need to manage patient care across the continuum and minimize costs by providing services in the “best” setting, avoiding unnecessary services and monitoring.</td>
<td></td>
</tr>
<tr>
<td>Value-Based Purchasing Program</td>
<td>2013</td>
<td>Establishes a program for adjusting hospital payment rates based on quality levels achieved in the preceding year. Metrics will be taken from the hospital quality reporting program. Hospitals need to implement comprehensive clinical performance benchmarking and monitoring systems, and will have to begin working with physicians now to implement improvements in quality.</td>
<td></td>
</tr>
</tbody>
</table>

The Implication of Healthcare Reform

NOT INCREMENTAL CHANGE

Significant improvement in value will require fundamental restructuring of health care delivery:

- Greater emphasis on quality – financial penalties for poor outcomes
- Reductions in reimbursement to hospitals and physicians
- Focus on value based purchasing – higher quality and lower costs
- Substantial capital demands
- IT – will be the information backbone of the hospital/physician integration
- Physician Strategies – employment will most likely be the trend
- Introduction of new vehicles to tie payments to quality improvement
- Bundled Payments
- Accountable Care Organizations
Implications of Healthcare Reform for Healthcare Providers

“Active management of the care people need, and the best way to deliver that care, is critical to improving value in care.”

David Cutler, PhD, Health Advisor to the President

“I see many [executives] who know that they’re part of the quality system and want to make a difference. That gives me optimism. Their help is badly needed to improve the quality of care.”

IHI President and CEO Donald Berwick

“This is a tipping point for our industry. It will change the fundamentals of how we perform our jobs as financial leaders.”

HFMA President & CEO Richard L. Clarke

Major Themes with Potential Impacts

- Having to do more with less
- Physician Integration
- Value Based Purchasing
- Bundled Payment
- Accountable Care Organizations
- Focus on Reducing Hospital Readmissions
- Increased pressure on eliminating hospital-acquired complications (safety)
- Waste, Fraud and Abuse

The Goal

The central goal in health care must be **value for patients**...

Value =

<table>
<thead>
<tr>
<th>Health Outcomes</th>
<th>Cost of Delivering the Outcomes</th>
</tr>
</thead>
</table>

- Outcomes are the **full set of patient health outcomes** over the care cycle
- Costs are the total costs of care for the patient's condition, not just the cost of a single provider or a single service

Copyright © Michael Porter 2010
**State of Transition**
Positioning for the Future

<table>
<thead>
<tr>
<th>Current Competitive Advantages</th>
<th>Future Competitive Advantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share (utilization based)</td>
<td>Market Share (covered lives based)</td>
</tr>
<tr>
<td>Leverage Payers through Volume</td>
<td>Leverage Payers through Quality</td>
</tr>
<tr>
<td>Marketing-Based Premium Brand Name</td>
<td>Quality-Based Premium Brand Name</td>
</tr>
<tr>
<td>Physicians and Insurance as Infrastructure Requirements</td>
<td>Physicians and Insurance as Revenue &amp; Income Sources</td>
</tr>
<tr>
<td>Hospitals &amp; Diagnostics as Revenue &amp; Income Sources</td>
<td>Hospitals &amp; Diagnostics as Infrastructure Requirements</td>
</tr>
</tbody>
</table>

**Incentive Structure Transition**

**Risk is inherent in every decision to be made**

The risk-aware organization requires some assessment of risk in every decision that Governance makes.

**Organizational Risks**
- Health Care Reform
- Limitations on access to capital and/or a significant increase in the cost of capital
- Integration vs. disintegration in physician relationships
- Shortage of qualified clinicians who can be effective leaders
- Payment and reimbursement increases below medical inflation
- Capital expenditures that further exacerbate the high fixed cost of hospitals, especially in I.T.
- Unfunded mandates (e.g. care of uninsured/underinsured)
1. Intense industry-wide efforts to reduce healthcare costs
2. Major adjustments in insurance markets and payment reforms
3. Physicians and providers scrambling to adopt I.T.
4. Greater emphasis on Medicare fraud and abuse recovery
5. Technology and telecom sectors will become leading players
6. Big pharma’s role will grow
7. Physician groups will join health systems
8. Alternative care delivery models will emerge
9. H1N1 will elevate emphasis on readiness for health outbreak
10. Community health will become a new social responsibility

Source: www.healthcarefinancenews.com/transcribing costs hope you didn’t lose T3 healthn
How to monitor risks

- Conduct a comprehensive risk assessment – inventory and prioritize
- Identify and prioritize key financial and quality reporting processes and controls
- Develop a current-year plan for monitoring risk and controlling the risk
- Link the oversight of risk to the Board committees

---

How to monitor risks

- Develop a strategic plan including the risks
- Develop a “Board Dashboard” providing critical information in a tight, simple format
- Assure that risks are sufficiently spread so no activity can threaten the organization
- Ask hard questions when things are going well not just when they go badly.
Source: Ian Morrison, President of the Institute for the Future

**The Second Curve**

Business Model Transition

Develop Criteria to Evaluate Consolidation

- Would the community be better served?
- Are the Missions compatible?
- Will clinical integration equal better quality?
- Will costs be reduced?
- Will consolidation serve physicians and help physician integration?
- Can infrastructure costs and investments be spread over larger base?
- Will the access to capital improve?
- Are cultures compatible?
Strategy = Planning Backwards from a Desired Future

- Link market-based strategic plans with operational, facility and financial requirements
- Develop implementation accountabilities
- Review and adjust through annual review

Governance: Ensuring the Future

- What do we want to create?
- Vision
- Evaluation
- Board Agenda
- Board Committee Work
- Board Committee Structure
- Board Goals and Objectives
- Annual Goals and Objectives
- Strategic Plan
- Mission

- Why do we exist?

Board Responsibility

- Develop the organization's mission, vision, value and goals
- Maintain oversight of finances
- Ensure quality of care
- Set the tone for strong performance culture
- Ensure high levels of executive management performance
- Ensure Board's effectiveness and efficiency through self-evaluation and development
- Oversight of strategic and financial planning
Board Responsibility – Strategic Planning

- One of the most critical responsibilities for trustees is strategic planning.
- Boards need to understand strategy’s importance, but it’s not their role to create the Plan; that task is delegated to management.
- Boards ensure that management’s strategies are sound and meet the organization’s Mission and Vision.

*Trustee involvement and guidance are key to the strategic planning process.*

Strategy Development Process

**Order of Development**

1. **Step 1** Organizational Priorities (Framework)
   - Mission
   - Reflect our Values
   - Represent our Vision
   - Share our Values
   - Earn our Vision

2. **Step 2** Strategies (include measurable goals)
   - Reflect decisions
   - Choices of A, not B

3. **Step 3** Implementation Plan
   - Tactics
   - Actions
   - Timetables

**Board’s role**

- **During Development**
  - Refine
  - Challenge
- **After Development**
  - Endorse
  - Monitor
  - Delegate to management

Emerging “Win-Win” Strategies in Hospital/Physician Integration

**Enterprise Organization**

- Patient Centric - Integrated Delivery System -

**Complete Alignment**

- **Degree of Alignment**
  - Vendor
    - Service Contract
    - Medical Directorships
  - Customer
    - Valued Med Staff, Member
    - "Physician Loyalty Program"

- **Manager**
  - Value Add Management
- **Partner**
  - Value Add Management
  - Joint Ventures

**Customer**

- **Vendor**
  - Service Contract
  - Hospital, Emergency Services, etc.
- **Advisor**
  - Medical Directorships
- **Customer**
  - Valued Med Staff, Member
  - "Physician Loyalty Program"
Emerging “Win-Win” Strategies in Hospital/Physician Integration

- Integrated Health System -
Development of a Patient Centric Culture
Through a New, Common Vision and Common Business Enterprise

Hospitals did not provide physician practices with adequate infrastructure or management

Hospital Centric Culture

Physician Centric Culture

Strategy & Market Position

• Support Infrastructure
• Management Experience & Understanding of “Physician Culture”

“Partnership”
- Shared Vision & Decision Authority
- Performance Accountability

Physician “Buy-in”

12 Mistakes Hospitals Still Make

- Paying too much
- Overbuilding
- Removing ancillary services
- Decrease in productivity incentives
- Add to employment cost
- Inadequate systems and management tools
- Add to the occupancy costs
- Disengaging providers from governance
- Inadequate management talent/experience
- Missing the basics of physician integration
- Plan to “make up” losses with downstream revenue
- No accountability

Source: Trustee; February 2010
Strategic Planning - Board considerations

- Provide oversight of operations and advice to management on strategic direction.
- Establish clear and definitive priorities
- Facing tremendous uncertainty
- Preservation of cash and ensure your cost structure is in good shape
- Conduct Scenario Planning – the "what if’s"
  - Impact of all payers reimbursing at Medicare Rates
  - Effects of Penalties for High Readmission Rates
- Integrate Strategic and Financial Plan

Analyzing the Business & Clinical Portfolio

- Market Attractiveness
  - Size
  - Growth Characteristics
  - Competitive Factors
  - Economic Factors
- Current Capabilities
  - Technology
  - Quality
  - Market Share
  - Image

BU = Business Unit
SL = Service Line

How Ready is your Organization?

- Are we prepared for the impacts of Health Care Reform?
- Are we establishing measurement criteria in a strategic planning process?
- Have we established planned outcomes and performance metrics?
- Do we have a plan for the organization will stay financially viable at all times?
- Do we plan to discuss strategic plan progress at each Board meeting?
- Do we spend 50% of the Board meeting on strategy?
- Will we restructure the Board if necessary?
- Are we creating Board-of-Future criteria?
How Ready is Your Organization?

- Focus on key issues
  - Do we understand the necessity of aligning with physicians?
  - Are we prepared to move toward an integrated model?
  - Have we evaluated new payment structures
  - How do we address a risk-based model?
  - Do we understand the regulators' plans?
  - Are we making strategic decisions?
  - Does our IT support the strategic vision of the future and the government regulations?
  - Are we meeting needs of community?
  - Have we evaluated our service lines?

Eight Steps to Transforming Your Organization

1. Establishing a sense of urgency
2. Forming a powerful guiding coalition
3. Creating a vision
4. Communicating the vision
5. Empowering others to act on the vision
6. Planning for and creating short-term wins
7. Consolidating improvements and producing still more change
8. Institutionalizing new approaches

Summary

- Understand and discuss the potential impact of healthcare reform
- Reevaluate/ create a strategic plan which specifically addresses the changing environment
- Establish financial and quality goals to insure financial viability and remove all waste from the System
- Reach consensus among Board and Management
- Make decisions strategically
- Measure and monitor outcomes
- Consider the Board of the Future
- Board provides monitoring and oversight
Increasing Costs:
- Is your hospital seeing increasing cost trends and what is driving them?
- Has your hospital developed approaches that are effective for reducing costs?
- Do you expect your hospital will need to make additional cuts in staffing?

More and Better with Less:
- Do your hospital’s efforts to improve satisfaction, quality and safety have a negative impact on operational efficiency?
- Can your hospital leverage improved quality, safety, and/or satisfaction to enhance its financial strength?
- Will the way care is delivered in the future need to change? If so, how will it evolve in your hospital?

Reimbursement Crisis:
- Have you strategized as to how your hospital can make a profit, or at least break even, at Medicare rates?
- How do you see your hospital’s relationships with payers evolving over the next 3-5 years?
- How can your hospital best position itself and protect its revenue for the future?
Discussion Questions

- Accountable Care
  - What will future reimbursement models (e.g. case reimbursement rates) mean for how physicians and your hospital need to work together?
  - Have you considered how your hospital will align hospital and physician incentives and increase the level of accountability among physicians (e.g. employment joint ventures)?
  - Will private insurance companies be stronger or weaker market players in the future? Have you examined how this will impact your hospital?