

Trustee Insights

EMERGING ISSUES



Unrelenting forces and dynamic shifts demand the board's creative thinking and preparation for even more significant changes ahead

BY LAURA P. JACOBS

As we head into the last lap of this decade, many trends will feel like a continuation of those we have dealt with throughout the past five to 10 years. Leading health care organizations, though, recognize that the next decade will be characterized by consumerism, personalized medicine, digital technology and artificial intelligence, and are evolving their cultures, business models and operational focus now in order to ensure success in the future. Here is our list of top 10 trends for

2019 and what trustees should be addressing in the boardroom:

Core Trends

The first six trends are unrelenting challenges; hospitals and health systems must continue to execute strategies to address them. Just because they aren't new doesn't mean they are any easier to address. In many respects, these six may be the most difficult trends to address because the "low hanging fruit" has already been picked. New

TRUSTEE TALKING POINTS

- Hospitals and health systems must execute new strategies and approaches to address ongoing and emerging challenges.
- Dynamic shifts in the health care field are fundamentally changing the way care is purchased, delivered and organized.
- The next decade will be characterized by consumerism, personalized medicine, digital technology and artificial intelligence.
- Leading organizations are evolving their cultures, business models and operational focus now in order to ensure future success.

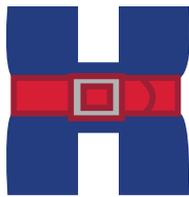
strategies and approaches may be required to address the lingering challenges.

1 Economic pressures

Financial constraints continue to be the number one concern of most CEOs. This is due to the fact that expenses (wages, benefits, supplies, drugs, information technology [IT], facilities, interest rates) are rising faster than revenues. Health plans are giving limited or no increases as they strive to keep premium increases low, and a rising percentage of revenues is represented by government payers (Medicare, Medicaid), which typically cover less than full costs. Demands for capital continue to be high (new/replacement facilities, IT), and some organizations will face the additional challenge of higher costs of capital due to bond downgrades.

Hospitals and health systems will seek to realize greater economies through mergers and acquisitions, right-sizing clinical programs and continually applying lean principles to achieve sustainable efficiencies. Cost-cutting approaches must move beyond “across the board cuts” to utilizing robust analytics, simulation modeling and strategic analyses to identify sustainable ways of addressing labor, nonlabor and pharmacy expenses, as well as unwarranted clinical variation.

Trustees should discuss: What is the organization’s five-year financial horizon? Are strategies being activated to ensure that cash flow



can fund capital needs? Can some IT purchases be completed as an operating expense versus a large upfront capital cost? What is the gap between Medicare payments and the costs for those patients, and what actions are being taken to close that gap? Has the organization created a sound clinical service portfolio across the system that optimizes resources and clinical outcomes?

2 Demographics and health status

Societal trends continue to point to an older, sicker population in most local communities. Some rural populations are actually shrinking, and many urban areas are increasingly complex, with great disparities in health status across the population. Obesity, chronic disease and opioid dependencies continue to plague most communities and require targeted, coordinated strategies to effect a turnaround. Many health care organizations are recognizing that, unless social determinants of health (housing, food, income disparities) are also addressed, making a lasting impact on the general health status of the community will nearly be impossible.

Trustees should discuss: How are population, demographic and socio-economic trends being taken into consideration in the organization’s local community, operational and clinical strategies? Are there active efforts underway to coordinate with



community organizations to impact the social determinants of health? Is the organization leading by example by driving a health and wellness orientation among its own employees?

3 Service area dynamics

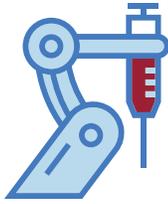
The forces of disruptive innovation are continually evolving, with the blurring of lines between providers, payers, pharma and retail organizations. Examples include the CVS/Aetna merger, Walmart and Humana, and many provider-sponsored health plans and payer-owned provider networks. Private equity-backed ventures are entering many local communities, providing primary care, virtual care, chronic disease management and population health programs, just to name a few. Employers are increasingly taking a leading role in organizing networks to manage the health of their employees. These trends are accelerating at a rapid pace and are likely to get even more “interesting” in the years ahead.

Trustees should discuss: What is the organization’s strategy to anticipate these changes in service area dynamics? Will the organization pursue new models and potential partnerships, or is it better positioned to focus on its traditional role and core strengths? What are the risks of ignoring new entrants or nontraditional competitors? What criteria exist to evaluate potential partnerships or new ventures?



4 Technology and biotechnology

Digitally enabled health care will provide exciting opportunities to diagnose and treat patients more precisely and less invasively. Yet choices will have to be made, given limited capital resources and clinical priorities. 3-D printing, as its application expands, will create opportunities to change the way academic medical centers train physicians, will refine presurgical planning, and provide new hope for some patients; it may also change the way equipment is repaired and serviced.



Cybersecurity will remain a top priority for all organizations, and especially health care organizations, which produce extraordinary volumes of data from monitors, sensors, electronic health records, and financial and other operating systems. Organizations that diligently protect, yet optimally utilize, the valuable data available to them will have an advantage in delivering high quality, efficient, personalized care to patients.

Trustees should discuss: What is the organization's cybersecurity strategy, and is it regularly evaluated for adequacy? What criteria are being used to evaluate new biotechnology purchases? How is the organization optimizing the IT and technology already available? (Is there a data governance structure in place to ensure that data is informing decision making in an effective and efficient way?)

5 Public policy, politics and regulations

Governmental decision making will always be a part of the health care equation, and 2019 will be no different. At the federal level, the Centers for Medicare & Medicaid Services will continue to evolve payment models to shift from pure fee-for-service to greater reliance on value-based payment, including those with downside risk (for example, accountable care organizations and mandatory bundles). Any radical changes are unlikely at the federal level, but watch for changes in your state: e.g., Medicaid reform, changes to insurance regulations, and/or transparency requirements.



Trustees should discuss: Do you receive regular education regarding changes in regulations and state and federal policy? Do the organization's financial plans anticipate or take into consideration changes in policy that could impact revenue or expenses? How is the organization performing under existing value-based payment arrangements?

6 Human capital

The health care workforce will continue to undergo changes on multiple fronts. Most health systems must grapple with an aging workforce yet must respond to the needs and expectations of a multicultural, multigenerational team. Addressing burnout at all levels of the organization will be important as

these continual challenges and pressures to reduce costs and achieve higher performance targets stress the organization and individual employees.

Low unemployment and shortages in some key jobs (e.g., physicians, nurses and technology) will require new strategies for recruitment and retention. Addressing the gap between reimbursement increases (low) to compensation expectations (rising) from physicians to staff employees will require new approaches to compensation, benefit and incentive structures. Leadership requirements will continue to evolve, as population health management, consumer-focused strategies, and larger and more complex health systems will require cultural shifts throughout the organization.



Trustees should discuss: Does your organization have a plan to address all aspects of the human-capital value chain, including talent acquisition, management, development, compensation and benefits? What is the investment in leadership development to ensure both continuity and effective leadership throughout the organization? Does the organization have an intentional approach to building an agile, resilient culture?

Potential Game Changers

The next four trends illustrate dynamic shifts that are fundamentally changing the way health care is purchased, delivered and

organized. These trends demand the board's and management's creative thinking and preparation for even more significant changes ahead.

7 Consumerism

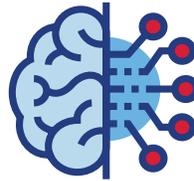
Informed and connected consumers will have higher expectations for Uber-like responsiveness and accessibility. This isn't particularly new; but with companies like Amazon, Apple, CVS and other consumer-oriented organizations playing a bigger role in health care, the stakes are much higher for the competition for consumer loyalty. With watches and other wearables tracking many aspects of individual health, and a physician visit just a click away via a virtual tele-visit, patients will have no patience for two- to three-week waits for office visits or results reporting. And the "marketplace" for health care "shopping" via Amazon-like platforms will increase the demand for real price transparency and rational fee structures.



Trustees should discuss: What is your access strategy? Is it incorporating multichannel approaches for communicating with and providing care to patients? What is the "brand experience" across your health system? (Is it consistently delivering to patients what you intend?) Have you developed a "retail" pricing strategy to be prepared for online price comparisons?

8 Artificial intelligence

Plan for a digitally enabled workforce. As artificial intelligence (AI) expands across many health applications, and digital tools facilitate better information sharing across multiple platforms, the impact on the roles, responsibilities and expectations of individuals across the workforce will be profound. AI won't take the place of humans, but it can eliminate repetitive tasks and allow clinicians and other care team members to work at the top of their licenses. Some roles could be eliminated, but others may be created — requiring new training or skill development. The availability of predictive analytics can facilitate the ability to ensure the right care at the right time, as long as there is clarity around what actions must be taken and who will take the action based on the data presented.



Trustees should discuss: Does the organization have a strategy to enable AI, and, if so, has it considered the impact on the workforce (e.g., different productivity expectations and/or changes in responsibilities and relationships)? How are predictive analytics being deployed in the organization, and are their uses actually driving change in care team roles and accountability for action?

9 New Care Models

The evolution of the care delivery model to incorporate family or other caregivers, community

resources and other "nontraditional" approaches will be necessary to be responsive to the demographic changes, complex disease states and consideration of social determinants of health. Care that has traditionally been provided in the hospital is continuing to shift to the home or outpatient setting. Advanced practice providers, such as nurse practitioners and physician assistants — not to mention nutritionists, pharmacists and social workers — will play an increasingly visible role in care delivery.

Widespread availability of genomic testing will create the need for physicians and other clinicians to be prepared to respond to new questions from patients armed with detailed information about their bodies. Care protocols will be personalized to address specific genomic characteristics.



Trustees should discuss: Have service line strategies and organizational objectives incorporated new care models considering health care at home, expanded care teams, and precision health? How are health outcomes being measured to ensure that quality and cost of care are improving as these care models evolve?

10 System transformation

With all of the aforementioned changes, the core care delivery model of health care organizations must also adjust. As payment models continue to shift to value-

based payment; as the pressures to reduce costs intensify; and as opportunities for many interesting partnerships present themselves, hospitals and health systems will have to question traditional ways of financial forecasting, strategic planning and even the option of outsourcing key functions. As payment models shift to risk for the total cost of care — whether in episodes of care (bundled payments) or in per capita costs — traditional metrics



of success (such as emergency department visits or inpatient days) will have to change.

Some organizations will outsource back-office functions such as revenue cycle, IT support, and population health management rather than build the infrastructure themselves. Health systems will continue to expand “upstream” (payer strategies) and “downstream” (retail and consumer strategies) through partnerships or other means, resulting in increasingly complex organizations.

Trustees should discuss: Is our strategic plan oriented to be “future-back” — starting with a clear definition of how to be positioned in the future, and then mapping the changes required to get there? Do we need to continue to be a “full service” organization, or should we partner with others to provide services, functions or capabilities in

TRUSTEE TAKEAWAYS

Your board should be addressing both familiar and disruptive trends over the course of 2019. Questions for deliberation could include:

- Has our organization created a sound clinical service portfolio that optimizes resources and clinical outcomes?
- How are population, demographic and socioeconomic trends being taken into consideration in our strategic plans?
- What is our organization’s cybersecurity strategy, and is it regularly evaluated for adequacy?
- Do our financial plans anticipate or reflect changes in public policy that could impact revenue or expenses?
- Does our access strategy incorporate multichannel approaches for communicating with and providing care to patients?
- Do we have a strategy to enable AI, and does it address how workforce responsibilities and relationships are affected?
- Have our service line strategies and organizational objectives incorporated new care models (e.g., precision health)?
- Does the composition of our board reflect the role the health system is playing now and desires to be in the future?

a more cost-effective manner? Does the composition of our governing board reflect the role the health system is playing now and desires to be in the future? Has the governance structure been evaluated to minimize duplication and unnecessary complexity?

Conclusion

As we have experienced in recent years, the drivers of change are many and are originating from multiple fronts. While challenging us on a

day-to-day basis, we also have the opportunity to harness these changes into opportunities for improving the health of the community, and for creating optimal experiences for patients and staff. In times like these, a quotation from Peter Drucker seems apt: “The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic.”

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