

GREAT BOARDS

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Governance Implications of Healthcare Reform

Healthcare boards face tremendous uncertainties as they consider strategic moves to address the healthcare reform law.

If the Act's intention to expand healthcare coverage by 32 million Americans is successful, will there be enough capacity—especially among scarce primary care physicians and overtaxed hospital emergency rooms—to meet the new demand without reducing access for others? Will Accountable Care Organizations be a central element of the new healthcare system or join the junkyard of failed past experiments? Will physicians, facing cuts of more than 20% in Medicare fees, join with hospitals or form their own Accountable Care Organizations and treat hospitals more like vendors than partners? Will hospitals and physicians be forced to accept Medicare pay rates from all payers?

Will the Patient Protection and Affordable Care Act even get off the ground in light of judicial challenges and resurgent Republican opposition in the next Congress? If courts toss out the law's requirements that all Americans have insurance or pay penalties, can the expansions in coverage for the uninsured be carried out? Finally, are the pressures from employers, Medicare, Medicaid, and consumers to lower healthcare costs so strong that providers will face massive changes regardless of what happens with the PPACA?

The magnitude of what's ahead requires that boards have a robust infrastructure for deliberation and decision making.

*A 10-question Self Assessment:
See page 7*

Leading organizations in turbulent times is nothing new, but when economic models driving more than 15% of the gross domestic product are poised to change, uncertainty takes on entirely different proportions.

The bulwark of provider reimbursement—the fee for service payment system that rewards ever-increasing utilization—has been identified as a primary culprit in rising costs. Experts have suggested that healthcare reform could drive a number of tectonic shifts in the delivery system, including:

- A shift of financial incentives from volume to value and outcomes.
- Unprecedented pressure on providers to reduce expenses, replace fragmentation with integration, and maximize efficiency and productivity.
- Replacement of independent hospital medical staffs with integrated hospital-physician organizations.
- Threats to the survival of mission-driven programs to care for vulnerable populations.
- A new wave of mergers, acquisitions, and strategic affiliations, as providers recognize their inability to stand alone or in small configurations.

Near-Term Impact on Governance

The magnitude of what's ahead requires that boards have a robust infrastructure for deliberation and decision making. Near-term, directors need to have a hard look at their approaches to board education, strategic planning, board makeup, governance structure, and the board's culture.

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Board education. Boards need immediate education about the new law, but one dose is hardly enough. Ongoing education and active discussion are needed to explore the implications of the law for the organization's finances, strategic direction, physician relationships, and ability to sustain its mission.

Strategic planning. Boards will need to re-examine the sustainability of their mission and the viability of their current vision and strategic plan in light of the significant financial repercussions of the Patient Protection Act.

Composition. Many boards have adopted competency-based succession planning processes in recent years and already are populating the board with individuals who bring a range of critical skills, including executive leadership, financial management, quality improvement, and financial audit.

In the future, systems that anticipate more strategic partnerships and development of new business lines may want to look for members with a background in mergers and acquisitions and in enterprise risk management. If hospital-based health systems evolve as anticipated to assume both financial and clinical responsibility for the health of populations and communities, boards will need directors with experience in public health, population health management, and health disparities.

Health system parent boards that have a high proportion of representation from their community hospitals may need to

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recruit directors who bring greater objectivity and system thinking to their work. Boards will need to rethink the kinds of physicians who are sufficiently independent and yet aligned with the organization's vision and values in order to serve as effective directors.

Streamlined structure. To maintain profitability and a strong balance sheet, health systems must optimize their full potential to achieve high performance. System boards will be called on to make difficult and timely decisions. Governance structures should allow boards to act quickly when needed. Bloated structures with too many boards, committees, and meetings slow down decision making. They can lead to a culture of unanimity in which nothing is done unless everyone agrees.

Make no mistake, some board decisions will be very difficult, involving staff reductions and facility or service line consolidations and closures. Resistance from within is likely. Local hospital boards will need to recognize that local autonomy and system-wide integration are fundamentally incompatible. Systems should consider whether they still need local boards—some will, some won't.

Systems that retain local boards need to give them a meaningful voice and role through shared governance structures in decisions that affect their communities. Local boards also can be conscientious overseers of how well the health system fulfills its mission in the community.

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Longer-Term Implications for Boards

Longer term, healthcare delivery systems are likely to become more accountable for value and outcomes for covered populations and communities. Expanded coverage for the uninsured will make state Medicaid reimbursement policies critically important in determining the viability of services for the poor. These changes may bring about fundamental changes in how directors see their roles, in the information they use for planning and oversight, and in the board's relationships with the community and other key stakeholders.

Board roles. In larger systems, the parent board's focus may change from a concentration on hospital services toward system-wide, enterprise thinking about how the components of the delivery system, including physician practices, medical homes, continuing care services, outpatient centers, and acute inpatient care contribute to quality and value. Boards of niche providers, such as rehabilitation and children's hospitals, will need to think about their role within larger accountable care frameworks.

Information. Dashboards and balanced scorecards will need to change from their institutional focus to include measures of improvements in population health and reductions in the per capita cost of patient care services.

Community connectedness. As healthcare undergoes massive changes, boards will want to think about new ways of communicating with local government, business, and community leaders as well as the consumers of healthcare.

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Preparing for Uncertainty

In times of uncertainty, there is a tendency to overestimate the impact of change in the short term and underestimate it over the long haul. The passage of Medicare in the 1960s was accompanied by predictions that national health insurance and related evils were around the corner. That hardly happened—but Medicare and Medicaid presaged decades of growth in healthcare spending and the government's role in payment and regulation.

Fears that the current healthcare reforms will overburden and destroy the delivery system—driving thousands of doctors to retire and hospitals to close their doors—are probably overblown. Longer term, though, healthcare will look very different in 10 to 20 years, particularly as baby boomers swell the ranks of Medicare. The decisions that boards and their senior leadership teams make in the years ahead will have significant repercussions for healthcare in their communities. Now is the time to be sure that the governance infrastructure is up to the task.

The next page offers a 10-question self-evaluation to help your board consider its readiness for healthcare reform.

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Self-Evaluation: Governance Infrastructure Readiness for Health-Care Reform

1. **Succession planning.** Do we have a robust board succession planning process to attract directors with the right competencies, time to devote, and are connected to the community? Are we devoting enough attention to developing board leaders?
2. **Board education.** Do we have a robust board education plan to keep directors educated and updated on healthcare reform?
3. **Core values.** Do we have robust measures and mechanisms to assess and assure that our core values are instilled and incorporated into new strategic partnerships and the evolving delivery system?
4. **Board and committee structure.** Are our structures streamlined for efficient education, deliberation, and decisions? Do we have the right committees?
5. **Strategic planning.** Do we have a robust process for board engagement in strategic visioning, planning, and oversight?
6. **Board meetings.** Do meeting agendas provide a robust platform for strategic discussions? Does our meeting culture encourage challenging questions and generative thinking? Do our decision processes provide ample opportunity for learning and inquiry—to uncover the “unknown unknowns” and consider alternative future visions, external developments, and strategies?
7. **Quality.** Do we have a robust process for board engagement in quality, patient safety, service excellence, and value improvement?
8. **Board information.** Are our dashboards robust enough to capture the evolution from volume to value? Do we have the right information to make informed, vision- and values-based decisions?
9. **Community connectedness.** Are our means of connecting with key stakeholders sufficient as the healthcare system changes?
10. **Board self-renewal.** Are our methods of board self-evaluation and improvement merely routine or are they rigorous exercises to drive improvements?