

Kentucky Trustee

For Kentucky Hospital Governing Board Members

Winter 2020

BOARDROOM BASICS

2020 and Beyond: Health Care Challenges and How to Govern Strategically

2020 brings many challenges that lead boards of trustees to face difficult choices, including political change, inadequate reimbursement, increased competition, changing care models, and growing consumerism. The turning decade is an opportunity for boards of hospitals and health systems to understand the challenges and to ensure they build and maintain focused, accountable, and visionary trustee leadership.

To get a clear picture of the challenges likely to impact hospital and health systems in the coming year, governWell™ (governwell.net), a governance advisory firm based in Chicago, talked with Ann Scott Blouin, RN, Ph.D., FACHE, President and Founder, PSQ Advisory. The following includes Ann's insights as well as governWell™ strategy fundamentals to assist boards as they consider strategic priorities for 2020 and beyond.

Looking Ahead: Eight Challenges in 2020

As boards explore the challenges hospitals and health systems are facing, they must consider the need for risk assessment, thoughtful advanced preparation, potential shifts in resources, and contingency planning. This article provides a brief overview of eight major issues for board consideration, including:

- Payment reform and potential changes with the 2020 presidential election;
- Cybersecurity;
- Climate change and the impact on health care facilities;
- Critical drug shortages;
- Regional labor shortages;
- Patient transitions to a different level of care;
- Social determinants of health; and
- The opioid crisis.

Payment Reform and the 2020 Presidential Election

Each of the presidential candidates has a slightly, or significantly, different view of how to further change health care access and coverage in the United States. This could have

major impacts upon how health care services are reimbursed and what types of vehicles provide insurance (for example, government vs. private). There is significant complexity involved in dismantling the current payer structures and, potentially, revising the Affordable Care Act.

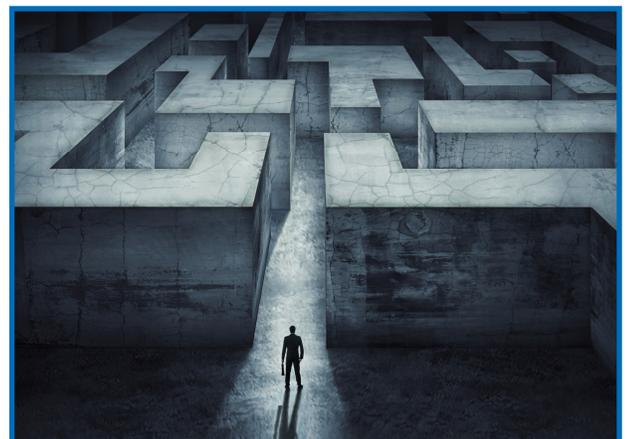
Cybersecurity

Cybersecurity assaults continue with more sophisticated “phishing”, hacking, malware and ransom demands. The sources of these attacks are diverse and believed to be international. No health care system is immune from thousands of efforts to breach its information technology.

Climate Change and Facilities

While there is disagreement about the nature and extent of climate change, there is a statistically significant increase in weather-related disasters. For example, wildfires in California and hurricanes in the southeastern U.S. appear to be occurring with increasing frequency and velocity. These urgent incidents require

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PRESIDENT'S NOTEBOOK

As soon as the new year began, KHA staff was hard at work advocating on behalf of Kentucky's hospitals with legislators in the state's General Assembly. This year's main priorities include:

- Fully funding disproportionate share hospital (DSH) payments
- Maintaining Medicaid expansion
- Retaining certificate of need (CON)
- Reforming medical liability
 - Eliminating phantom damages
 - Enacting reasonable limits on attorney contingency fees and requiring transparency on those fees



Nancy Galvagni
President and CEO

Additionally KHA will:

- Support outlining specific standards for APRN collaborative agreements
- Oppose medical marijuana
- Support taxation of e-cigarettes
- Support legislation to require ambulatory facility data reporting
- Oppose legislation to reduce personal injury protection payments to the workers' compensation fee schedule that does not exempt hospitals

It is our honor to work alongside hospitals and health systems to ensure they can continue to serve their communities by advocating for policies in Frankfort and Washington that support their ability to provide high quality health care. When we all work together, we form One Powerful Voice for hospitals!

You can always visit www.kyha.com/policy to keep up with the issues we are acting on for you, or feel free to contact KHA staff members with your questions.

Sincerely,

A handwritten signature in black ink that reads "Nancy Galvagni".

Nancy Galvagni
President
Kentucky Hospital Association

Governance Notebook

Update Your Hospitals' Trustee List with KHA

We hope you are enjoying your complimentary subscription to *Kentucky Trustee*. Now is an excellent opportunity to check that the Kentucky Hospital Association has up-to-date records on your hospital board's membership. You and your colleagues will receive the latest trustee publications and invitations to education, governance, advocacy and networking events only if KHA has a list of names and contact information of your board.

Contact Tammy Wells at KHA (twells@kyha.com) to make sure your information is included.

Save May 21-22, 2020, for the KHA 91st Annual Convention

KHA invites you to join your hospital chief executive officer and fellow hospital trustees at KHA's 91st Annual Convention, May 21-22, 2020, at The Northern Kentucky Convention Center in Covington. The 2020 Convention will include special events as well as educational and networking opportunities with hospital leaders from throughout the state.

Do you have ideas for future issues of the *Kentucky Trustee*?

Our goal is to provide you with the information and knowledge you need to lead your hospitals forward in today's rapidly changing environment. Tell us what you think, and what you would like to see in future issues of the *Kentucky Trustee*.

Write or call:

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extensive emergency preparation, including evacuation and facility safety.

Critical Drug Shortages

Frightening shortages of drugs critical to treating common illnesses and surgeries have emerged, causing health care systems to seek alternatives, if feasible. Manufacturers in geographic locations vulnerable to climate crises (such as Puerto Rico) have especially been impacted. These shortages can delay essential patient care, as health systems scramble to find alternative sources for needed pharmaceuticals and anesthesia agents.

Social determinants of health (SDoH) such as lack of education, homelessness, unemployment, lack of transportation, and food insecurity play a huge role in disease prevention and chronic disease management.

Regional Labor Shortages

Recruiting and retaining competent and experienced health care professionals has always been critical for all health care providers. However, there are special circumstances faced by rural health care facilities and post-acute care providers that create temporary or permanent labor shortages. As the U.S. population ages and longevity improves, there will be a need to meet the increased demand for nurses,

physicians, pharmacists, physical therapists, and others across the care continuum.

Patient Transitions to a Different Level of Care

The care continuum will experience both innovation and transformation as the digital age explodes in technologic advances. Care will be increasingly available via telehealth and distributed via “networks” of providers, focused on increasing access and reducing cost. Many people want to have health information and care delivery available in convenient, efficient methods—24/7.

Home health, hospice, skilled nursing, and assisted living are all projected to grow as “Baby Boomers” often prefer to “age in place” whenever possible.

Social Determinants of Health

Not all people across the country will be equally able to participate in digital care coordination and health management to stay healthy and prevent illness. Social determinants of health (SDoH) such as lack of education, homelessness,

unemployment, lack of transportation, and food insecurity play a huge role in disease prevention and chronic disease management. Research demonstrates that these public health issues impact a population’s health more dramatically than genetic background or acute care interventions. Health systems are increasingly focused on SDoH as a key strategy for success as an Accountable Care Organization (ACO).

The Opioid Crisis

The opioid crisis has emerged as a national crisis of epidemic proportions. The White House Council of Economic Advisers estimated the opioid crisis cost at \$696 billion (>3% of the Gross Domestic Product) in 2018 and more than \$2.5 trillion between 2015-2018. The loss of life is staggering, as is the impact upon the communities struggling to address the emergency services, substance abuse treatment, and criminal justice costs.

While these eight areas are not an exhaustive summary of issues boards should understand, they do represent a large component of what hospital and health system boards of trustees will have to navigate in the coming years.

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Three Truths About Setting Direction

Thinking and leading strategically are fundamental strengths that every board must demonstrate. While it can seem to be an overwhelming and highly detailed process, there are three important truths that boards should understand about setting strategic priorities and direction.

1. **Board members don’t need to know everything there is to know in order to make intelligent decisions and wise choices about the future.** There is an overwhelming amount of information available at any given time that may be relevant to the planning process. Trustees need to have assurance that senior leadership is asking the right questions and utilizing the appropriate tools to ensure an evidence-based, outcomes-focused process.
2. **Because of the rapid pace of change in health care, what organizations know today is very different from what they’re likely to know tomorrow.** That means that strategic planning processes, structures, and systems need to be flexible, and that the plan must be adaptable to new information and new realities of the future that have not yet been envisioned.
3. **Trustees will never know everything they’d like to know to be totally confident in every decision they make.** What they need is the assurance that the board’s “knowledge bank” has sufficient “capital” to ensure that the decisions they make, and the directions they outline for the future of the hospital, can withstand scrutiny.

All of the board’s primary strategic responsibilities are contained in these critical areas. Once this work has been accomplished and the board is satisfied with the broad strategic direction, the management team can go to work to develop action steps, communicate the plan throughout the organization, and ensure that everything is in place to ensure a successful strategic implementation.

LEADERSHIP PERSPECTIVES

Mergers and Acquisitions: Assessing Your Options

Following passage of the Affordable Care Act, the number of hospital mergers and acquisitions began to rise, increasing by 70 percent from 2010 to 2015 as hospitals and health systems integrated services and pursued economies of scale in efforts to deliver cost-effective, value-driven care.^{1,2} But 2017 proved to be the record setting year with 115 transactions, comparable in number to 2015 (112 transactions), and involving nearly twice the revenue as 2015. According to Anu Singh, Managing Director of Kaufman Hall, “The size, magnitude, and complexity of these deals has reached a new level. It’s telling us that providers are reacting and responding to industry transformation by creating wider and deeper enterprises that can thrive in the face of disruption because they include physician alignment, broader base and type of care sites, and a full care continuum – all with access, relevance, and convenience for the consumer.”³

To determine the type of affiliation that best suits a hospital, it is imperative for the hospital’s leadership to take a long-term view, and carefully determine the approach that will best ensure the development, continuity and security of the community’s health care. The organization must be operated and structured to provide flexibility and

responsiveness to the community’s current health needs, and be able to effectively and successfully respond to emerging health needs.

The hospital’s board of trustees should consider the following key questions as it evaluates any change to its present organizational structure:

- What is the organization’s most viable and valuable health care role, both now and in the future?
- What is the organization’s position in the regional health care continuum, and how can that position be solidified?
- What strengths and assets are most critical for the organization to possess?

- What types of management and operating resources does the organization need to have access to meet future community and organizational needs?
- How should the organization be structured to be able to best meet the health needs of the community? Is the status quo the best alternative or something else?

Overview of Operating Structures

Hospitals have several options for changing ownership, affiliations, and structure. The best option will be determined following a careful examination of the hospital’s current operating performance, resources and needs, projections of future needs, challenges and opportunities, assessment of national and local health care trends, and community needs. Below are brief descriptions of four basic organizational alternatives, followed by a summary of the advantages and disadvantages of each one.

Independence. Some maintain that an independent hospital cannot be fully effective and successful in meeting the community’s health care needs in today’s complex and rapidly-changing health care environment. However, a case can also be made that an experienced, professional, and capable CEO, working closely and effectively with an educated, motivated, responsible, and committed board of trustees and medical staff, can still be successful in today’s challenging environment.

The keys to success as an independent hospital are leadership, vision, capital, and community loyalty and commitment. The

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administration and the board must be able to anticipate, and aggressively and effectively deal with the multitude of complex issues facing the hospital, operate successfully in a climate of rapid change, offer uniqueness and distinctiveness in services and customer service, deliver high quality that meets or exceeds patient needs and earns patient and community loyalty, and be able to preserve or expand market share in the service areas provided.

Advantages of independence may include:

- Continued status as community-owned and community-governed;
- CEO reports directly to the board of trustees, ensuring clear and direct lines of local responsibility and authority;
- Flexibility in making operating decisions and changes without outside interference; and
- Preservation of current structure and identities.

Disadvantages of independence may include:

- Current financial and utilization trends may inhibit ability to improve services and long-term viability;
- Potential for narrow, isolated decision-making may cause the hospital to miss opportunities;
- Fewer options to access capital;
- Greater vulnerability to competitive threats; and
- Lack of immediate, ready access to needed personnel.

Management Contract. Operating successfully under a full-service management contract requires strong communication between the organization,

its board and the management entity, and a clear understanding of, and agreement to, mutual objectives and expectations.

The keys to success as an independent hospital are leadership, vision, capital, and community loyalty and commitment.

When management contract arrangements fail it is often because the hospital client does not adequately analyze and understand its true needs, select the appropriate management firm, structure an appropriate, mutually-beneficial contract, and then manage the contract to ensure

that the hospital’s goals, services, and actions are directly related to those needs.

There are two types of management contracts a hospital could consider: 1) full-service management contract with a hospital management company; and 2) management contract with a regional hospital or hospital system that can offer access to the range of management services the organization needs.

Advantages of a management contract may include:

- Continued status of the hospital as a community-owned, community-governed, and locally-managed organization;
- Governing autonomy and flexibility preservation;
- Management company experience provides access to proven and tested systems and programs that may be successfully adapted to the hospital’s needs;
- Easy and immediate access to a broad range of key personnel and management company resources makes it convenient for the organization to access needed assistance quickly;

Operating successfully under a full-service management contract requires strong communication between the organization, its board and the management entity, and a clear understanding of, and agreement to, mutual objectives and expectations.

- Opportunity for information exchange with other managed hospitals with similar needs; and
- Flexibility to terminate the management contract if the board of trustees becomes dissatisfied with the management company’s performance.

Disadvantages of a management contract may include:

- Added cost of the contract to already strained financial resources;
- Loss of decision-making autonomy and flexibility (based on contractual provisions);
- Potential to develop a “dependency” on the management company’s products and services making any necessary return to proprietary management difficult;
- Potential to lessen somewhat the board’s sense of community and fiduciary responsibility and accountability;
- Key personnel are employees of the management company, not the hospital. Management “loyalty” is to both the board of trustees and the management company; however, primary loyalty will likely be to the actual employer (the management company), on which key personnel rely for future opportunities;
- The organization pays for broad access to a range of services it may not need or utilize; and
- May reduce or eliminate “comparison shopping” for vendors in key areas where the management company provides products and services.

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- Predictable source of income over the life of the lease;
- Potential role for some form of local advisory board governance;
- Elimination of business risk;
- Single point of decision-making streamlines and speeds the decision process;

Strategic Affiliation. A strategic affiliation is typically a looser arrangement under which two organizations agree to work together contractually to achieve a broad set of objectives. Strategic affiliations may take many different forms, with a variety of mutual commitments.

A strategic affiliation, under the right circumstances, may enable economic, governance, and programmatic integration that could benefit a hospital and its employees, physicians, and patients. It could also enable more streamlined payer contracting, and better coordinated management, governance, and strategic planning. Services could be integrated and broadened, and managed care contracting strength could be enhanced.

Advantages of a strategic affiliation with another health care organization may include:

- Ability to benefit from the name and reputation of a larger, well-respected organization;
- Improved professional advancement potential for employees;

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Lease to or Merger with Another Health Care Organization. A hospital lease is essentially a contract that gives possession of hospital land, buildings, equipment, and services to a lessee for a specified period. Under a lease arrangement the organization gives full use and responsibility for the facility to another party to manage and operate as it sees fit, within the parameters specified in the lease agreement. A merger is essentially a transaction through which one corporation acquires the assets and assumes the liabilities of another corporation.

Advantages of a lease to or merger with another health care organization may include:

- Access to new sources of capital for equipment, salaries, physician recruitment, etc.;
- Streamlined, fully integrated decision making may create greater operational flexibility;
- Ability to improve competitiveness in the areas of cost, quality, and outcomes;
- Proceeds from the transaction, if any, to a newly-formed foundation (or other not-for-profit entity), which may be used in a variety of ways consistent with the hospital’s mission;

- Improved ability to align services and operations; and
- Opportunity to streamline governance and operational decision-making and direction.

Disadvantages of a lease to or merger with another health care organization may include:

- Loss of control: policy control is in the hands of the lessee or new entity;
- At some point the hospital may seek to regain control of operations, and could be required to assume significant costs to do so successfully;
- Under a lease, the philosophy and standard of care of the lessee prevails; there is no absolute assurance that services provided will match community needs;
- Under a lease, the cost of payments to the lessor becomes a new cost to the lessee, making it more difficult for the lessee to build a positive bottom line;
- Potential reduction in autonomy and identity; and
- Community preference for an independent hospital.

A strategic affiliation, under the right circumstances, may enable economic, governance, and programmatic integration that could benefit a hospital and its employees, physicians, and patients.

- Ability to improve competitiveness in the areas of cost, quality, and outcomes;
- Improved access to capital;
- Ability to reduce unnecessary duplication of services through appropriate service consolidation;
- Ability to be a part of a broader network of providers;
- Ability to be part of a unified managed care contracting effort; and
- Ability to develop seamless joint initiatives.

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Questions to be Addressed

- How satisfied are you with the progress the hospital has made in the last five years?
- Is the hospital mission still an accurate description of the hospital's purpose? If not, what should be changed?
- Is the vision an accurate picture of what the hospital should be striving to become? If not, what should be changed?
- What are the most significant characteristics of your current situation (e.g., market position, financial position, competition, opportunity for expansion, etc.)?
- What are the most dominant issues facing the hospital today? Short-term (next 12 months)? Mid-term (1 to 3 years)? Long-term (over three years)?
- What are the unmet or under-met health care needs of residents of the hospital's service area?
- What local market trends are most critical to understand in shaping the hospital's strategic future?
- What major assumptions should we make about the environment that will impact our ability to achieve our strategies (e.g., the economy, competition, reimbursement, inflation, etc.)?
- What is the hospital's unique, market-based vision in key success areas (e.g., managed care, community health status, premier provider, delivering value, affiliations, community leadership, public trust, accessibility, appropriate services, innovation, financial health, etc.)?
- What factors are most critical to the hospital's success over the next 1 – 3 years (e.g., cost efficiency, quality, technology, community support, information systems, patient and payer satisfaction, employee development, service innovation, consolidation, external relationships, market coverage, etc.)?
- What limiting factors will the hospital have to overcome to be successful?
- Where does the hospital have the most potential for growth? What services should the hospital consider to further solidify its market position?
- What are the hospital's major strengths and competitive advantages? What are its significant weaknesses and competitive liabilities?
- What market niches or opportunities are most critical for the hospital to capitalize upon (short-term, mid-term, and long-term)?

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Disadvantages of a strategic affiliation with another health care organization may include:

- Potential reduction in hospital autonomy and identity;
- The philosophy and standard of care of the controlling entity prevails; there is no absolute assurance that services provided will match community needs, or how and where services will be delivered; and
- Community preference for an independent hospital.

The Board's Accountability

Regardless of the organizational structure choice made in today's difficult economic environment, it's the board's responsibility to ensure that the choice strengthens the hospital's ability to achieve its mission and vision, and secures the long-term health care future of the community.

Operating Structures

- ✓ Independent
- ✓ Management contract
- ✓ Lease to or merger with another health care organization
- ✓ Strategic affiliation

Sources and More Information

1. American Hospital Association. 2018 AHA Environmental Scan. *Hospitals and Health Networks*. October 2017.
2. Noether, Monica, Ph.D., May, Sean, Ph.D. Hospital Merger Benefits: Views from Hospital Leaders and Econometric Analysis. Charles River Associates. January 2017. https://www.crai.com/sites/default/files/publications/Hospital-Merger-Full-Report_FINAL-1.pdf
3. KaufmanHall. Healthcare Provider M&A Hit a Record-Breaking Pace in 2017 and Signals Big Changes Ahead, According to Kaufman Hall Report. January 29, 2018. <https://www.kaufmanhall.com/news/healthcare-provider-ma-hit-record-breaking-pace-2017-and-signals-big-changes-ahead-according>.

Governance Pitfalls to Avoid

As board members work to examine the organization’s strategic direction and find new ways to engage the board, they must be on the lookout for potential pitfalls. Some of these include:

1. Assuming that the past is a reliable predictor of the future.
2. The inability to craft a compelling, dynamic and meaningful vision embraced by all.
3. Attempting to manage plan details instead of engaging in critical strategic dialogue.
4. Taking narrow, board-centric approaches that do not involve a broad range of participants.
5. Viewing strategic planning as an endpoint, rather than as a continual process of real-time responsiveness to change.
6. Failing to define precise targets, measure progress, and continually work to close strategic gaps.
7. The inability to drive the strategic planning process, outcomes, and responsibilities deeply into the organization.
8. The inability to continuously turn new information into strategic knowledge, and transform it into strategic action.

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Governing Strategically

Governance leaders play a unique and very important role in the organization’s strategic planning process, and in its ongoing strategic success. The role of the board is to be a leader, a motivator, and a catalyst for strategic success. The board does not need to be involved in the details of strategic plan development and implementation.

It’s the strategic thinking role that is absolutely unique to the board in the strategic planning process. Simply stated, the board should govern and lead the strategic plan, not create or manage it.

The board is the driver and keeper of the organization’s mission, values, vision, goals, and strategies, but it should not dictate the plans for delivering on those expectations. When it does, it ceases to play a governing role and instead plays a management role, blurring the lines between these two critical elements.

Effective board-level planning emphasizes an ongoing strategic dialogue into which are continually fed new information, new ideas, and new perspectives, and out of which emerges a constant stream of strategic development opportunities.

Actions the Board Can Take Now

Boards can take action now to move forward as accountable, responsible, and responsive strategy-focused boards, including:

1. **Review the current strategic plan**, including evaluating its purpose and value.
2. **Assess the organization**, leading the initiation of a in-depth, wide-ranging, and comprehensive examination of organizational fitness for future success.
3. **Identify the most critical challenges** and forces shaping the organization’s future, and develop a compelling and responsive vision.
4. **Focus on vision and outcomes** vs. programs and details. The board should be most concerned with the “what” rather than the “how.”
5. **Pioneer new thinking** and new responses to emerging needs.

6. **Create and nurture a culture that welcomes and embraces change** as a creator of new opportunities and innovation.
7. **Lead with purpose and consistency** through unplanned and unexpected change.
8. **Inspire executive leaders** to excel as strategic change leaders who can coalesce employees, medical staff, and others within the hospital or health system in a movement unified with purpose, committed to excellence, and rewarded for performance.

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