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Healthcare Forecast 2023: 10 Trends for Board Members and Senior Leadership

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What's Inside:

Uncertainty and an Unstable Healthcare Environment

As hospitals and health systems diversified and immigrated forward and backward in the continuum of healthcare, the number of companies they compete with increased—many being well-funded and having more resources available to take market share.

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It is well-documented that health systems experienced strong headwinds for the past two years. The areas creating the biggest cost issues include labor (travelers, registry, or temporary staff), salaries, wages, and benefits (SWB), drugs (especially specialty drugs, now 40 percent of dispensary revenue),[1] supply chain issues, lower volumes, and recently, inflation and interest rate increases (causing debt to be more expensive).

Adding to these headwinds are the current uncertainties of the flu virus, COVID variants, and respiratory syncytial virus (RSV). These flare-ups and surges are causing strain on the hospital capacity (with many lacking enough beds) and staffing, especially nurses. Investment losses have also hurt health systems and hospitals, making donations a top priority. Evidence of these struggles were reported by HCA Healthcare, Tenet Healthcare, Universal Health Services, and Community Health Systems during October 2022 (identifying

1 Shubham Singhal and Neha Patel, "The Future of U.S. Healthcare: What's Next for the Industry Post-COVID-19," McKinsey & Company, July 19, 2022.

the factors listed previously as the cause for missing earnings targets).[2] This article provides our list of the top trends and implications for health system and hospital governance and management teams.

1. Cybersecurity:

- Anticipate more cyber attacks and greater ransoms requested in 2023.
- Health data breaches reached a record level in 2022, affecting nearly 50 million patient records.

In the boardroom:

- Expect to see requests for additional funds for cybersecurity budgets to protect patient data, provide greater security, and remain compliant with evolving regulations.
- Have a cybersecurity plan in place and use an outside organization to review.
- Educate and train staff to constantly be aware of threats, phishing emails, and other attacks, as well as on ways to avoid HIPAA violations to maintain confidential, secure data.

2. Labor unrest and workforce challenges:

- A repeat from last year because healthcare organizations will deal with this tumultuous issue throughout 2023.
- Expect more strikes, high wage increases, and enhanced benefits. Costs and shortages are going up again. Except we now see shortages of physicians, nurses, and other clinical personnel.
- There is no short-term increase of any significance that will positively impact the workforce supply.

In the boardroom:

- Ensure that your financial scenario models and budgets consider the impact of anticipated increases in salaries, wages, and benefits due to inflation, merit and cost-of-living increases, travelers, locums, bonuses, and anticipated union contract changes going forward.
- Consider development of your own staffing pool or a shared pool with other hospitals.

3. Inpatient volumes will decline again:

- There will be continued movement to ambulatory and home care.
- Value-based payment systems will push more care into less costly care delivery sites because economic incentives will impact physician behaviors.

2 Nick Thomas, "How HCA, Tenet, CHS, and UHS fared in Q3," Becker's Hospital CFO Report, November 1, 2022.

- Continued worries by the public over virus outbreaks and surges will scare patients away from the hospital and emergency room for fear of getting infected.
- The decline in inpatient utilization will continue, despite an aging population, increasing chronic disease, improved access due to effective care models incorporating social determinants of health (SDOH), and delayed patient care from 2021 and 2022.

In the boardroom:

- Be vigilant in tracking trend lines that show shifts in volume and revenues for inpatient, ER, outpatient, and post-acute care.
- Correlate this data with payer mix shifts (see item five below), as well as market share and service line specific performance data. This information should be used to drive strategy regarding partnerships, consumer outreach, patient experience, and contracting activities. Look for raw number changes versus a general decline in the market.

➜ Key Board Takeaways

- Update your strategic plan with a focus on being essential to payers, patients, providers, and a leader in excelling at value-based care performance.
- Manage costs amid the volatility.
- Invest in your cybersecurity strategy—be very proactive in preventing breaches.
- Model strategic and financial scenarios using key variables (payer mix, volume shifts, impacts of disruptors, possible competitor strategies and alliances) to stay on the leading edge of competitive positioning tactics.
- Be patient and flexible—curve balls (unforeseen) will be coming at your organization.

4. Value-based care will continue to slow and be refined:

- CMS will continue to roll out more care models with associated payment systems that will reward improved quality and cost reduction.
- Health plans, in conjunction with physician organizations, will also develop new payment systems to incentivize care models that result in lower-cost and better quality by providing economic rewards to the physicians.

- At some point, payments will have to level off or decline to benefit the overall spend.

In the boardroom:

- Ensure that value-based reimbursement and terms of risk sharing consider inflation and other cost accelerators that may arise in the future.
- Explore partnerships with appropriate entities to ensure aligned financial and clinical incentives among all parties.
- Track management efforts to improve patient experience and engagement, outcomes, quality indicators (top decile), and lower per unit and total cost of care.

5. Payer mix will continue to deteriorate:

- As the population ages, the Medicare payer mix will increase as a percentage of patients.
- As people continue to reevaluate their work/life balance and stay home, as evidenced by the large number of job openings, people will use Medicaid programs or health insurance exchanges instead of employer health insurance. Some of this unemployed workforce may not have insurance and choose to self-insure. As expected, HMO and PPO health plans will lose members due to the employment situation.
- Physicians are scheduled to suffer a payment reduction in 2023 from CMS.
- CMS will offer a payment increase of 4.3 percent in the fall of 2023 to CMS designated "birth-friendly" hospitals that participate in national or state collaborative programs where public health leaders and medical teams work together to improve care.[3]

In the boardroom:

- Scrutinize financial and operations reports and updates to detect changes in payer mix for all categories (Medicare, Medicaid, HMO/PPO, commercial, self-pay, and others) and service line types.
- As revenue per unit stalls, reduce expenses accordingly.
- Correlate these shifts to your strategic and service-line specific plans, expense reduction tactics, and revenue cycle activities.

6. Virtual care and artificial intelligence:

- Virtual care, which experienced robust growth during the pandemic, has come in use and is expected to slowly increase again.

3 CMS, "New CMS Rule Increases Payments for Acute Care Hospitals and Advances Health Equity, Maternal Health" (press release), August 1, 2022.

- Mental health will continue to make greater use of telehealth (especially in the ER) as the shortage of psychologists and psychiatrists gets worse. Many of these providers do not want ER call or in-hospital practices.
- Continued growth of wearable health tools by Google, Apple, and others will continue to broaden their uses and integrate better with a patient's medical record and daily activities.
- Breakouts of various viruses will also bolster the use of telehealth.
- Artificial intelligence will continue to see increased use in care algorithms, value-based care models, clinical care treatment protocols, and diagnosis as well as the tried-and-true use in non-clinical areas like revenue cycle.

In the boardroom:

- Support exploring uses of AI in areas such as non-clinical services, oncology, imaging, and other service lines to further standardize care, lower costs, and improve quality.
- Consider partnerships with larger healthcare systems to join their efforts to share data and leverage collective resources to accelerate the development and application of AI to predictive modeling, genetic profiles, and personalized and precision medicine.

7. Mergers and acquisitions will continue to increase:

- As health systems and hospitals struggle under this difficult environment, some will be faced with finding a partner. A partner may be necessary if they lack the ability to make money, can't borrow money for capital projects, can't invest in strategic initiatives, or see the market moving in a different direction than the path their organization is on.
- Efforts to acquire major physician, urgent care, virtual care, and post-acute companies will continue at a robust pace in 2023. Amazon is buying One Medical, CVS is buying Signify Health, Walmart bought MeMD, and Walgreens Boots Alliance invested in VillageMD, bought the rest of CareCentrix, and now is acquiring Summit Health.
- Venture capital and private equity will tighten criteria to invest.
- There will be more cross-over market expansion (horizontal integration) to reduce risk.
- Consumerism will be more focused using greater market segmentation: Clever Care (Asians), Alignment Health Care, and Zocalo Health (Latinos).

In the boardroom:

- As a governing board, have a clear vision of your future desired state—size, revenue targets, geography served (including virtual), partnership types, payer relationships, service breadth, etc.
- Work with management to assess your organization's ability to successfully fulfill its mission.
- Monitor the evolving market and competitive environment around you. What opportunities and threats do you perceive? How does this impact your short- and long-term strategy?

8. A focus on diversity, SDOH, and governance:

- Health systems and hospitals will continue to pursue diversity within all aspects of their organization. This includes hiring a person responsible for this effort and bringing in more diverse board and committee members, as well as providers and staff/management. The human resources department and board and committee nominating process will be more inclusive and reflect the broader community served by the healthcare organization.
- Collaborating with community organizations or even providing funding for community organizations that can have a greater impact on SDOH will remain a priority for hospitals and health systems.

In the boardroom:

- Take a fresh look at your community health needs assessment (CHNA) regarding SDOH needs and potential solutions and a broader array of mission-oriented partners and community resource organizations.
- Assess the competencies of current board members and identify future gaps and needs; correlate these with diversity expanding opportunities reflective of the communities you serve.

9. Supply chain issues:

- Health systems should be well situated with this topic. Many systems have deepened their relationship with their group purchasing organizations (GPOs) and suppliers. Further they most likely have developed back-up suppliers and moved from just-in-time inventory to self-distribution (more inventory).

In the boardroom:

- Maintain a balanced approach to optimize availability of supplies and reduce costs as you seek to meet current needs and remain prepared for unexpected contingencies and emergencies.

10. Price transparency:

- Price transparency continues to be an issue with the public. They can't seem to get a price that is accurate, and nothing is easy to find or use. Meaningful information remains out of public grasp.
- Expect more action by elected officials to force more meaningful and useful price information.

In the boardroom:

- Assess how "price transparent" your organization is today. Is your pricing information accurate, helpful, easily accessed, and understandable?
- Consider a demonstration at a board meeting of the process that patients go through to access your hospital's price information for a few common procedures and tests. Look at a few of your competitor's pricing information and its ease of access and clarity.

Conclusions

Boards and management face a daunting 2023. With strong headwinds, health systems and hospitals will need to make sure they have an updated strategic plan. Paul Keckley recently highlighted the need for boards to be accountable to the strategic plan stating that, "studies show the active engagement of boards in strategic planning is lacking."[4] Boards and management will need to revisit other plans as well, including fundraising, capital, and operations. Organizations will need to respond to well-funded disruptors in the healthcare market as they expand and seek market share growth with significant resources.

2023 will be a difficult year with financial challenges (e.g., inflation, costs, staffing) having a significant negative impact on hospitals. This will cause some hospitals to look for partners as well as cause some to reign in their capital plans and borrowing. Lastly, board members and the management team may experience higher-than-usual turnover given the difficult environment in which health systems and hospitals operate.

4 Paul Keckley, "The Three Blind Spots in Hospital Strategic Plans," *Keckley Report,* October 31, 2022.

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Private Equity Doubles Down on Healthcare Provider Investing

By **Deirdre Baggot, Ph.D., RN,** Partner, **Kevin Wistehuff,** Engagement Manager, and **Luke Marazzo,** Associate, *Oliver Wyman*

Private equity has pumped billions of dollars into healthcare over the past couple of years, with an emphasis on technology and services impacting providers. There have been high-profile acquisitions, like Bain Capital and Hellman & Friedman's $17 billion takeover of athenahealth,[1] as well as strategic partnerships, such as Welsh, Carson, Anderson & Stowe's ongoing joint venture with Humana, which, in May 2022, committed $1.2 billion to launch roughly 100 new primary care clinics focused on the Medicare population.[2]

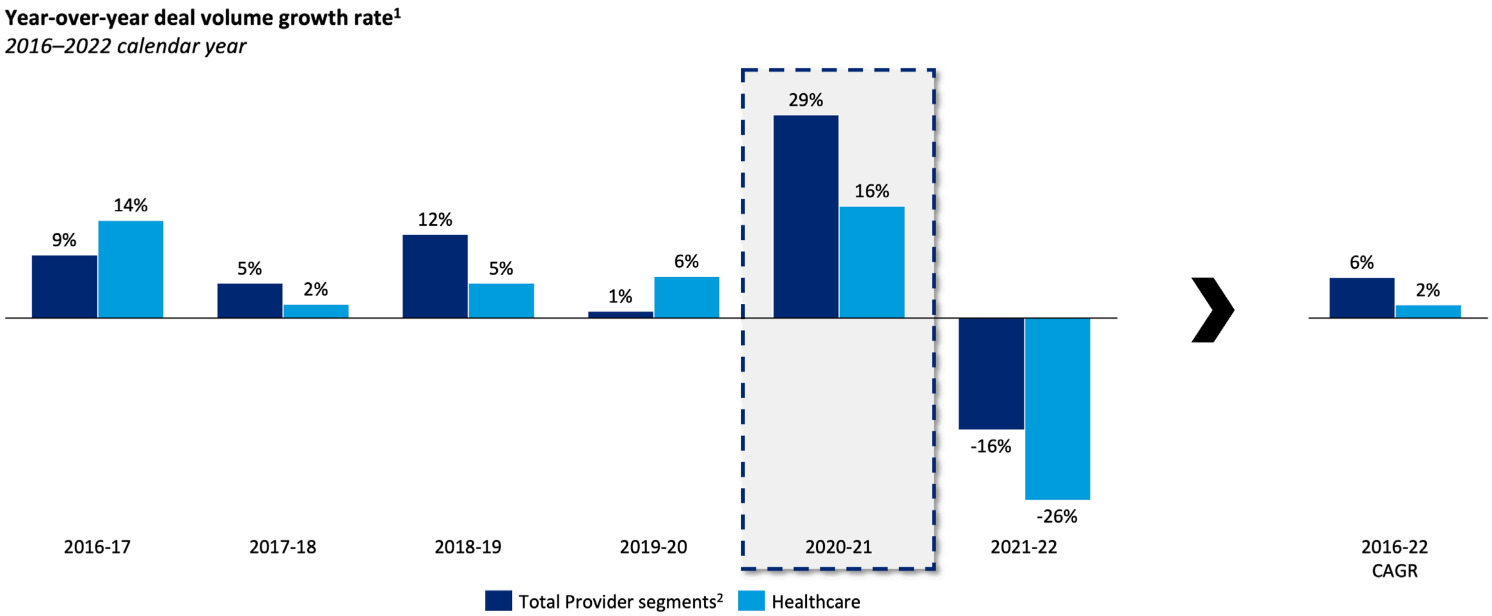
But as the global economy contracts and capital markets continue to tighten, combined with operational challenges many of the services sector has faced (labor shortages, supply chain challenges), we expect private equity firms to modify their investment strategies.[3] Healthcare still offers promising returns, but investors will likely be even more targeted in their approach. This article explores trends in private equity investments, new approaches taking shape, and implications for hospital and health system boards.[4]

Dealmaking Trends

Between 2016–2021, provider-focused private equity deal volume grew from 506 to 848, a 10.9 percent annual growth rate, compared to an 8.5 percent annual growth rate in the overall healthcare industry (see **Exhibit 1**). **Investors are aggressively fundraising into the oncoming downturn**; venture capital mid-year

1 Hellman & Friedman, "athenahealth, Healthcare Technology Leader, to be Acquired by Hellman & Friedman and Bain Capital for $17 Billion," November 22, 2021.
2 Humana, "Humana's CenterWell Senior Primary Care and Welsh, Carson, Anderson & Stowe Announce Second Joint Venture to Develop and Operate Value-Based Primary Care Clinics for Medicare Patients" (press release), May 16, 2022.
3 Chris Williamson, "Global Economy Contracts for Second Month Running Amid Tightening Financial Conditions," S&P Global Market Intelligence, October 10, 2022.
4 The data and information in this article are based on a Pitchbook, S&P, Oliver Wyman analysis; "Provider" deals were defined as the healthcare segments of clinics/outpatient services, elder and disabled care, hospital/inpatient care, enterprise systems, and medical records systems.

Exhibit 1: Provider Segment Deal Volume in 2020–2021 Grew at Almost Twice the Rate of the Overall Healthcare Market, While Seeing Similar Declines in 2021–2022



1. Deal counts include buyouts, other PE transactions, all VC stages, all round numbers, all series.
2. Includes clinics/outpatient services, elder and disabled care, enterprise systems (healthcare), hospitals/inpatient services, and medical records systems.

Source: Pitchbook, Oliver Wyman analysis.

2022 fundraising reached approximately 2020 full-year levels in just six months, while surpassing all years prior to 2020.[5]

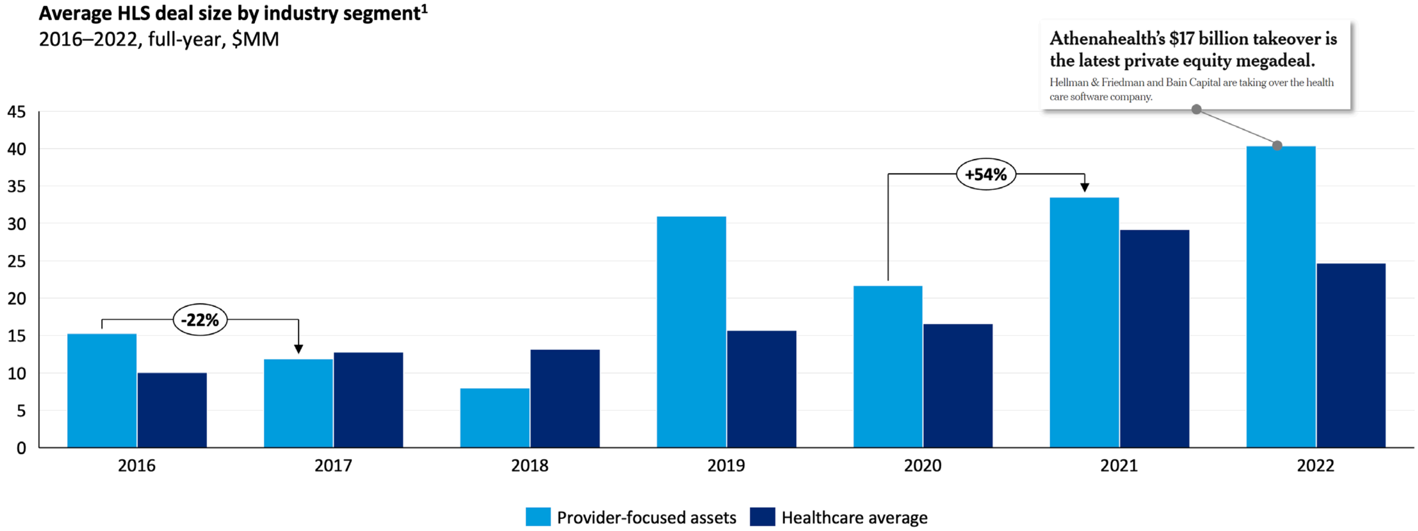
At the same time, **the average size of provider-focused deals increased from roughly $15 million in 2016 to $33 million in 2021**; growing even more in 2022, to $40 million, largely attributable to the athenahealth buyout compounded with lower overall deal volume. That growth parallels what we saw across healthcare, where average deal size hit $29 million in 2021, up from $10 million in 2016 (see **Exhibit 2**).

5 Jonathan Norris, Raysa Bousleiman, and Beatriz Atsavapranee, "Healthcare Trends Reveal Venture Funding Set New Record," Silicon Valley Bank, 2022.

Exhibit 2: Higher Average Deal Size in 2021 and 2022

Average deal size across provider-focused assets grew over 20% in 2022, driven by the $17 billion athenahealth buyout by Bain Capital and Hellman & Friedman. That follows a 54% rise in 2021, which was in-line with the overall healthcare industry.

Average HLS deal size by industry segment[1]
2016–2022, full-year, $MM



1. Deal size is defined as total capital invested over total deal volume; capital investment includes buyouts, other PE transactions, all VC stages, all round numbers, all series funding.

Source: Pitchbook, New York Times, Oliver Wyman analysis.

Medical groups continue to be an area of interest for private equity investment. Market data suggests the percentage of medical group deals done by private equity firms exceeded 70 percent in 2020, up from 10 percent in 2014.[6] And there's more room for growth in this space. Only 4 percent of physician practices were owned by a private equity firm, according to a 2020 American Medical Association analysis.[7] And an Advisory Board survey found that 45 percent of independent medical groups are interested in a private equity partnership.

After a banner year of deal volume in 2021 and the first half of 2022, several factors including operational challenges, inflation, fears of a recession, rising interest rates, record high valuation multiples, fewer available targets, and the lingering impact of COVID-19 on the economy drove an overall decline in 2022. Through the past year, healthcare deal volumes dropped 26 percent compared to 2021. Provider-focused assets, while more resilient than the overall healthcare market, experienced a 16 percent decline in volumes during the same period. Furthermore, private equity ownership and

6 David Y. Lo and Nicholas J. Janiga, "2022 Outlook: Physician Practice Industry," Healthcare Appraisers, January 13, 2022.
7 Carol K. Kane, "Recent Changes in Physician Practice Arrangements: Private Practice Dropped to Less Than 50 Percent of Physicians in 2020," American Medical Association, May 2021.

involvement in healthcare services is evolving into a politically heated topic—we expect further public and regulatory scrutiny around private equity involvement in healthcare investing, exemplified by President Joe Biden's remarks during the 2022 State of the Union: *"And as Wall Street firms take over more nursing homes, quality in those homes has gone down and costs have gone up. That ends on my watch."*

Other risks include smaller strategic acquisitions falling off as valuations rise and price out smaller buyers. Larger funds with greater capital resources are pushing out smaller buyers from the market as M&A and inorganic growth becomes less feasible.

Nonetheless, the shifting landscape creates opportunities for investors and healthcare firms alike to be more strategic in how they partner and access capital. Provider-focused assets continue to be a target for private equity investors, and with overall healthcare expenditure forecasted to continue to rise in the near- and medium-term, opportunities and funding will continue to follow.

➜ Key Board Takeaways

Board members at not-for-profit health systems must ask some critical questions as they monitor activity from private equity firms, including:

- **Strategic partnerships:** Boards should ask how potential partnerships align with the organization's overall mission. Will partnerships with private equity help the health system reach its strategic goals? How would such a partnership compare to one with another provider or a health plan?
- **Appetite for growth**: Private equity funds typically operate with a three-to-five-year investment period characterized by rapid growth and follow-on acquisitions, before exiting the investment with an equity re-sale. Does this align with the organization's mission?
- **Long- and short-term opportunities:** "Private equity" is a broad term to describe a range of funds with vastly different investment strategies. What does the ideal private equity partner look like?
    - A large, multi-national incumbent player with a five-year investment horizon?
    - An established infrastructure fund looking to hold and invest in the long-term?
    - A newly established, targeted fund looking to exit with an IPO?
    - These examples are not meant to be exhaustive but to help drive conversations. Private equity funds *want* to partner with providers, and it is up to the provider to ensure the correct partner is chosen to best serve their organization's strategic goals and mission.

New Approaches Taking Shape

As those opportunities evolve, we expect a few trends to play out this year:

- **Rigorous review:** Investors will apply a more rigorous approach to maximizing valuations, especially after their stratospheric rise in 2021. That includes taking a closer look at operations, labor costs, supply chain limitations, and other factors that can impact a return on investment.
- **Rounds of funding:** Startups need to moderate their funding expectations. The days of getting the bulk of funding in one or even two financing rounds are over. It's more likely that it will take three or four rounds. Under that scenario, healthcare organizations must be more realistic about what they can deliver—and when—based on the financing in hand.
- **The need to partner:** Startups and other innovators will look to partner or collaborate with other firms to minimize risk and scale up quickly. This will be especially true in healthtech where providers are growing weary of point solutions. By collaborating, startups can bring more wholistic platforms solutions to market, earlier than ever before.
- **Post-deal value creations:** Given the rise of the level and size of private capital in the market, on-the-ground value creation driven by investors is now becoming the primary way to generate investor return. Investments in integrating and platforming, streamlining M&A, and strengthening operations are key for value generation for today's investor.

Governance practices must evolve as these trends take hold. Increased regulatory scrutiny of private equity's role in the provider space is sure to influence a health system's partnership strategy. At the same time, as valuations come back to earth, boards may encourage executive teams to acquire a reasonably priced asset to bolster the system's position in a market and add a new technology or capability. For health systems with their own innovation centers, board members will want to ensure that investments are being made in startups that align with the system's strategic vision and have a path toward profitability.

The Governance Institute thanks Deirdre Baggot, Ph.D., RN, Partner, Health and Life Sciences, Oliver Wyman, Kevin Wistehuff, Engagement Manager, Health and Life Sciences Private Capital, Oliver Wyman, and Luke Marazzo, Associate, Health and Life Sciences Private Capital, Oliver Wyman, for contributing this article. They can be reached at deirdre.baggot@oliverwyman.com, kevin.wistehuff@oliverwyman.com, and luke.marazzo@oliverwyman.com.

Evaluating Independence: A Community Health System's Continuing Journey

By **Brook T. Ward, M.P.A., FACHE, FABC, R.T.(R) ARRT,** Chief Executive Officer, *Washington Health System*

In 2021, The Governance Institute published an article I co-wrote with Guy Masters entitled "Independence or Merger? A Board's Most Difficult Decision."[1] This was a real-time case study about Washington Health System (WHS) in southwest Pennsylvania, about 25 miles from Pittsburgh, which is an ultra-competitive healthcare market.

In early 2020, WHS had been approached by another local hospital seeking to be acquired by WHS. Multiple other organizations had also approached WHS about merging. The Washington Hospital is the primary hospital within WHS and is positioned in an attractive market at the crossroads between three major academic medical centers and five other large community hospitals and health systems in the surrounding areas. The WHS board stepped back to look objectively at the internal and external environment, scenario analysis, financial projections, and operational assessments to determine whether WHS could achieve its vision "to remain a locally governed healthcare system that is a leader in healthcare quality, safety, and value" as an independent healthcare system.

As a result of that undertaking, the WHS board decided the strategy was to remain independent while pursuing additional partnerships and alliances across the region with select organizations that can provide the specific resources and relationships that will lower per-unit cost in select service lines to reduce the total cost of care. The WHS board was determined to remain vigilant in tracking key financial, operational, and quality performance indicators with set thresholds that could trigger a reassessment of strategic alternatives.

1 Guy M. Masters and Brook T. Ward, "Independence or Merger? A Board's Most Difficult Decision," E-Briefings, The Governance Institute, September 2021.

Context and Background: Essential Community Providers

Washington Health System comprises two rural hospitals—The Washington Hospital (260 beds) and WHS Greene Hospital (50 beds)—that serve primarily two counties and their surrounding communities southwest of Pittsburgh, Pennsylvania. The system generates $500 million total patient revenue and has more than 2,300 employees and over 40 outpatient sites including a rural health clinic and an employed multidisciplinary provider practice group (100+ providers), and with more than 350 hospital medical staff members.

In addition, Washington Health System has diagnostic centers, outpatient care facilities, the Wilfred R. Cameron Wellness Center, family medicine residency, a school of nursing, and numerous joint ventures in the areas of hospice, senior living, home health, and others, to provide patient/family-centered care. It owns a regional ACO/CIN with three similarly sized community health systems as a value-based healthcare organization and is a participant in the Pennsylvania Rural Health Model CMMI pilot program.

Over a Year Later

Without rehashing everything that has happened in the last year across our industry and the world, let's take a moment to remind ourselves of the major events negatively impacting healthcare organizations. We experienced the COVID-19 Delta/Omicron surge, the Great Resignation/Great Retirement, Ukraine war, continued supply chain disruption, and increasing inflation to name a few. It goes without saying, it has been an extremely tough period for hospitals, health systems, and healthcare providers.

WHS is no exception to these industry, economic, workforce, and world events, although we have been successful via creating staffing incentives and working with our nurses, thus avoiding the need for a single travel RN. Our primary hospital, The Washington Hospital, is celebrating its 125th anniversary this year and has never used a travel RN over that entire time. As you can imagine, some of the financial, operational, and quality performance indicators set earlier by the board as part of the prior assessment have largely been surpassed in positive and negative ways. Who could have predicted what was about to happen and the impact of those events on our organization?

Continuous and Iterative Organizational Sustainability Assessment

In the spring of 2022, the WHS board decided to continue its ongoing assessments of the organization's ability to achieve its vision in a financially sustainable way while factoring in the new business environment. WHS is not a large consumer of consultant services, but the board felt having some outside expertise assist the executive team in reviewing the organization's situation was critical. In addition to seeking a consultant to assist, the board made decisions on two key important elements. First, it created a steering committee with some board members and executives to work with the consultant. Second, the board set the goals and objectives for the consultant engagement. This element turned out to be extremely important. It created the basis for the type of consultant, type of assessment, and a common understanding across all stakeholders. This critical conversation resulted in seeking a consultant who would assist the steering committee in identifying a future path forward that would enable the organization to operate as a thriving and sustainable community asset (if that is possible in the new business environment). The stated goal was to have long-term, high-quality healthcare services provided locally in a sustainable way.

> The board set the goals and objectives for the consultant engagement. This element turned out to be extremely important. It created the basis for the type of consultant, type of assessment, and a common understanding across all stakeholders.

Market and Financial Assessment

The steering committee worked through several organizational and market assessments to make sure our understanding of the situation was updated since 2020. Some of these assessments included observations from interviews with each steering committee member, market share (by discharge and service line), population trends, value propositions (cost and quality), inpatient/outpatient growth opportunities (by zip code and service line), financial situational analysis, and projected financial scenarios. In addition to doing these WHS assessments, we also completed similar assessments on all our market competitors to look for similarities and opportunities each competitor might have that was different from WHS. These assessments needed to be approached with an honest perspective and the steering committee was challenged not to insert bias about WHS, the market, and the industry. The consultant was also asked to work with the executive team to do an organization-wide evaluation. They were instructed to evaluate every service line, entity, program, department, and functions (IT systems, FTE analysis, revenue cycle, etc.) to look for opportunities to reduce expenses and/or achieve growth (market share and revenue).

At the conclusion of the assessment phase, WHS received good and bad news. The good news was that the executive team had done a good job running the business. There were some opportunities for improvement, but nothing significant and much less than the consultant normally finds at other organizations. The bad news is that there wasn't any low-hanging fruit that would positively and quickly impact the organization in the near term.

➜ Key Board Takeaways

Conducting a proactive rigorous and objective analysis of your organization's operations, market, and sustainability will:

- Show that the board is open to objective, quantifiable, evidence-based analysis of potential options available and associated timelines tied to a financial forecast.
- Demonstrate that an objective assessment fulfills the board's fiduciary duty to the organization regardless of the emotional impact of considering these scenarios.
- Allow all board members to understand the process, variables, and data modeling essential to provide sufficient information to make an informed and defensible decision about options and strategies.
- Identifying a collective goal for this type of activity eliminates the potential for heading down the wrong path and misunderstandings across all participates.

Findings

Like many healthcare systems across the country, WHS is being negatively impacted by flat volumes and higher expenses due to increased salary/wages and inflationary trends. As our analysis painfully displayed, WHS does not have many opportunities for improvement in our current environment. Following these honest assessments, the steering committee, working with the consultant, discussed several different strategies and identified the following:

Option 1: Status quo

- Fortunately, the organization has a strong balance sheet to weather storms like the one facing our industry currently.

Option 2: Remain independent while implementing identified opportunities

- The opportunities identified by the consultant for organization improvement are high risk with limited potential for improvement.
- The execution risk to capture the potential opportunity would be a concern along with the competitor responses.

Option 3: Partner with another non-profit health system

- This option may meet several of WHS's organizational objectives and strategies, but also comes with significant risk. Competing cultures, community politics, IT systems, and physician alignment compound the difficulty of this option.
- This option also triggers the potential for major responses from competitors in an otherwise stable market. Fear of competitor responses should not drive decision making but having open and honest discussions about what the competitor's response may be will help the scenario/ business planning and in making a final decision.

Key Finding:

All of the options considered had the potential to address a certain component of WHS's core objectives, but no single option would immediately and fully address all the objectives.

Going Forward

At this point, the WHS board steering committee is still evaluating the full ramification of each option. The open dialogue across this group of board and executive team members is critical to achieving the goal of maintaining sustainable, high-quality, local healthcare. WHS's story isn't over and will continue to evolve as it has over the last 125 years. Whatever the final decision is in the future, the board is fulfilling its fiduciary obligations, using data transparency (via the numerous assessments), and openly discussing all options. Fear of change will always weigh heavy on critical decisions, but we owe it to our community and the organization to make tough decisions to achieve the organizational goals and improve our community's current and long-term health.

The Governance Institute thanks Brook T. Ward, M.P.A., FACHE, FABC, R.T.(R) ARRT, Chief Executive Officer, Washington Health System, for contributing this article. He can be reached at bward@whs.org.