

# Healthcare Risk Management: The Path Forward

Legislative regulation and mounting patient expectations have created seismic shifts in U.S. healthcare that are compelling practitioners to abandon well-established fee-for-service methods and transition to a more complex and value-based healthcare system. At the American Society for Healthcare Risk Management (ASHRM), a personal membership group of the American Hospital Association (AHA), we will successfully move forward by paving our association's path with clinically-based best practices that nimbly enable high-quality, cost-effective care.

To help navigate that forward path, we engaged a nationally-known healthcare consultancy to assemble ASHRM members' viewpoints, and the viewpoints of a diverse group of healthcare executives from a wide range of organizational types and sizes. Our goal was to explore the drivers of change in today's dynamic healthcare environment in order to define and assess the implications for our members and for the risk management profession.

ASHRM members, board leaders and senior healthcare executives shared their thoughts about:

- Emerging areas of risk in the transformation of healthcare
- Efforts and challenges to achieving Enterprise Risk Management (ERM)
- Delivery system integration
- Consolidation and transformation to the risk management profession
- Risk management professional advancement
- Risk management leadership qualities

## Executive Summary

Input from the report was wide ranging. But the consistent theme revolved around compelling reasons why hospitals and healthcare risk managers must adapt and be proactive in developing and implementing initiatives that enhance organizational performance and productivity while improving patient outcomes.

In fact, report findings indicate that in today's increasingly-competitive and complex environment, those risk management professionals most likely to advance their careers will be those who are the most well-informed, knowledgeable and confident. Success-track risk managers develop and maintain keen business acumen and the capacity for strategic thinking and vision. They anticipate future scenarios, offer insights and propose pioneering solutions.

Through clear articulation and demonstration of the significance of their professional leadership, risk managers will successfully meet the needs of healthcare organizations within a transformational and increasingly value-based environment.

## The New Normal: Life in Two Healthcare Worlds

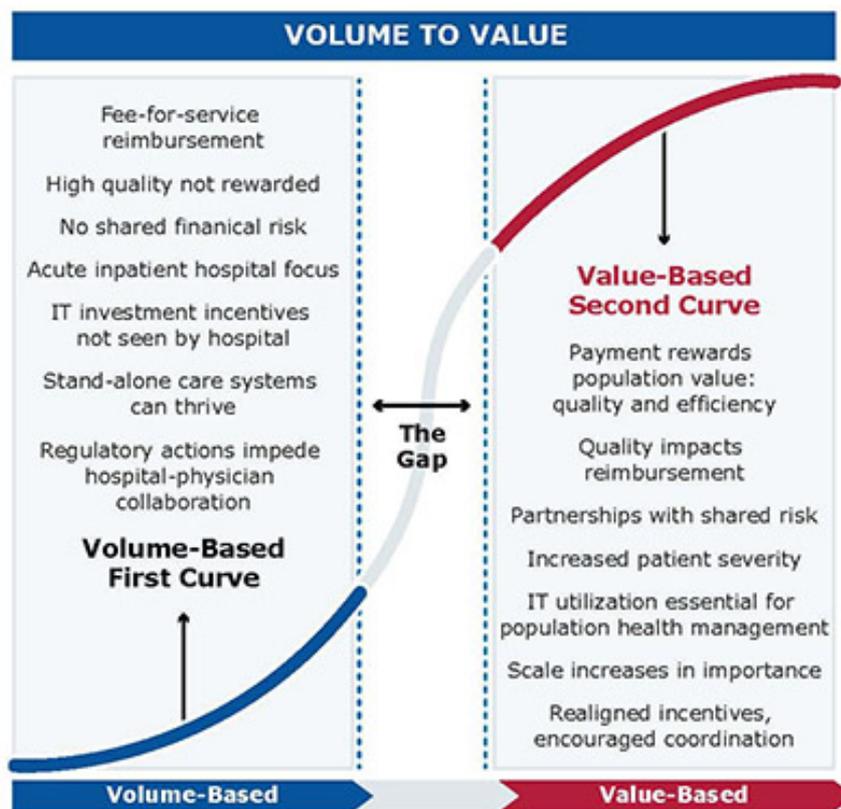
Like most healthcare professionals these days, ASHRM members live in two worlds as they navigate away from what futurist Ian Morrison described as the “first curve” (rewards for volume) to the “second curve” (rewards for value) of healthcare.

Our study found that *when* and *how* to venture out on the second-curve path is keeping more than a few risk management executives up at night as they try to balance high-quality care and tightly-managed costs.

### How Do We Efficiently and Affordably...

- ...align hospitals, physicians and other clinical providers across the continuum of care?
- ...utilize evidence-based practices to improve quality and patient safety?
- ...improve performance through productivity and financial management?
- ...develop integrated information systems?

Building off of Morrison’s first curve to second curve shift, the AHA previously identified characteristics of the first curve (volume-based) and the second curve (the value-based).



Source: *Hospitals in Pursuit of Excellence (HPOE) of the AHA*

Gap challenges affect both healthcare executives and risk managers. **Don Sipes, vice president regional services at Saint Luke's Health System** in Kansas City summarized the gap conundrum with these examples:

- Clinical competencies of “second curve” healthcare delivery require a steep learning curve
- Balance is needed between the current system and new world of care delivery
- Regulatory conflict is common
- Technology investment is essential
- Accountability for managing patients' health is now shared

These complex challenges will compel risk managers to keep up to date and knowledgeable because second-curve performance metrics will be based on astute business savvy, the capacity for strategic thinking and vision, anticipatory leadership, insights and solutions.

### **Second-Curve Preparation for Risk Managers**

ASHRM members identified several key value-based competencies that correlate within the eight domains of enterprise risk management (ERM).

**1. Operational:** The purpose of healthcare is the delivery of care that is safe, timely, effective, efficient, and patient-centered within diverse populations. Operational risks often result from inadequate or failed internal processes, people, or systems, such as: adverse event management, credentialing and staffing, documentation, chain of command, and deviation from practice.

Value-based Competency: Laser focus on risk management and safety. Elimination of operational silos. Improved two-way communication and teamwork within facilities as well as between multiple care sites. Adaptability, flexibility and willingness to embrace change.

**2. Clinical/Patient Safety:** Delivery of care to residents, patients and other healthcare customers. Clinical/Safety risks may include failure to follow evidence-based practice, medication errors, hospital acquired conditions (HAC), serious safety events (SSE).

Value-based Competency: Heightened emphasis on risk management and patient safety. Lack of focus on safety may result in lost credibility or negatively impact finances. Staff training, education and commitment to patient safety are essential.

**3. Strategic:** Activity associated with the focus and direction of the organization. Because the rapid pace of change can create unpredictability, risks included within the strategic domain are associated with brand, reputation, competition, failure to adapt to changing times, health reform or customer priorities. Managed care relationships/partnerships, conflict of interest, marketing and sales, media relations, mergers, acquisitions, divestitures, joint ventures, affiliations and other business arrangements, contract administration, and advertising are other areas generally considered as potential strategic risks.

Value-based Competency: Organizations need to be proactive while also being cognizant of the potential for unintended consequences. Organizations and risk managers must be adaptable and flexible.

**4. Financial:** Decisions that affect the financial sustainability of the organization, access to capital or external financial ratings through business relationships or the timing and recognition of revenue and expenses make up this domain. Risks might include: costs associated with malpractice, litigation, and insurance, capital structure, credit and interest rate fluctuations, foreign exchange, growth in programs and facilities, capital equipment, corporate compliance (fraud and abuse), accounts receivable, days of cash on hand, capitation contracts, billing and collection.

Value-based Competency: Productivity innovation will be prized as hospitals are forced to do more with less; changes to programs or staff may impact patient satisfaction, safety, and risk management.

**5. Human Capital:** This domain refers to the organization's workforce. This is an important issue in today's tight labor and economic markets. Included are risks associated with employee selection, retention, turnover, staffing, absenteeism, on-the-job work-related injuries (workers' compensation), work schedules and fatigue, productivity and compensation. Human capital associated risks may cover recruitment, retention, and termination of members of the medical- and allied-health staff.

Value-based Competency: Sufficient, qualified, educated, and trained staff committed to patient safety will be essential in the second curve phase of healthcare.

**6. Legal/Regulatory:** Risk within this domain incorporates the failure to identify, manage and monitor legal, regulatory, and statutory mandates on a local, state and federal level. Such risks are generally associated with fraud and abuse, licensure, accreditation, product liability, management liability, Centers for Medicare and Medicaid Services (CMS) Conditions of Participation (CoPs) and Conditions for Coverage (CfC), as well as issues related to intellectual property.

Value-based Competency: Regulatory changes and potential changes in liability will directly impact hospital strategic development and planning; collaboration with regulators will be essential. Managing risks and ensuring compliance will require significant and skilled resources.

**7. Technology:** This domain covers machines, hardware, equipment, devices and tools, but can also include techniques, systems and methods of organization. Healthcare has seen an explosion in the use of technology for clinical diagnosis and treatment, training and education, information storage and retrieval, and asset preservation. Examples also include Risk Management Information Systems (RMIS), Electronic Health Records (EHR) and Meaningful Use, social networking and cyber liability.

Value-based Competency: The transformation to electronic data and information sharing creates new risks that require professional competency in the transfer and sharing of information and the ability to provide security and privacy protections.

**8. Hazard:** This ERM domain covers assets and their value. Traditionally, insurable hazard risk has related to natural exposure and business interruption. Specific risks can also include risk related to: facility management, plant age, parking (lighting, location, security), valuables, construction/renovation, earthquakes, windstorms, tornadoes, floods, fires.

**Value-based Competency:** Many hospitals are trending toward better continuity planning by replacing paper files and records with digital data stored off-site. This ensures a local disaster doesn't destroy patients' files completely and gives healthcare organizations more leeway in terms of event recovery. Enterprise risk management formulas can help healthcare organizations assess and prioritize various events and they can be further tweaked based on the likelihood of specific events. For instance, East Coast hospitals may have hurricane issues, organizations in the Midwest may be concerned by tornado threats and West Coast healthcare organizations might prioritize earthquake response.

Plans are meaningless without practice, which is why it is critical to run drills to test whether staff is ready to execute. Hospitals need to run regular drills to practice emergency response to a wide breadth of disaster types to ensure they can respond quickly. Proactive risk managers must consider disaster events ranging from terrorist attacks to floods. Preparation can lead to more positive outcomes for facilities, operations and the ability to better provide service.

### **Leading Risk Management Across the Enterprise**

ASHRM members generally believe that although some progress has been made towards implementing Enterprise Risk Management (ERM), more can be done. Breaking down silos to achieve broad, organization-wide perspective should be pragmatically addressed.

Although organizations differ in how they implement ERM, executives agree that everyone throughout their organizations must understand their responsibility to recognize and help manage or eradicate organizational risks. Strong leadership is required to systematize consistent enterprise-wide risk assessments and effective work plans.

ASHRM members seek a comprehensive ERM framework, a broad organization-wide perspective that covers many domains and emphasizes the importance of the whole and the interdependence of its parts.

In short, breaking down silos to achieve organization-wide synergy is a noteworthy goal for ASHRM members. Risk managers recognize that good communication between departments, providers and patients is needed to mitigate vulnerability and risk exposure and to improve outcomes.

### **Focus on Outpatient and Clinic Settings**

ASHRM members believe encompassing the full continuum of care requires an increased focus on outpatient and clinic settings, which may transition the hospital's role to that of a specialized service rather than a position of primary focus.

Many service areas being brought into the continuum of care have not experienced the rigor of risk management that exists in hospitals and will therefore require initial scrutiny and ongoing support.

Clinical integration, partnerships, ACOs, population health management, and cost-efficiency measures, while lauded by many as methods for integrating and improving the delivery of healthcare, also pose critical strategic challenges and risk.

Along with quality and safety, and forging new partnerships, **AHA President and CEO Richard J. Umbdenstock** identified the assumption of insurance risk as being among the “top three” categories of emerging risk that capture his attention.

During this time of transition, “...new risks may emerge as consolidation takes place with unfamiliar partners,” cautions **Cedars-Sinai Health System President and CEO Thomas M. Priselac**. “New people, new processes, new locations, new types of patients, new regulations, and new compliance mandates potentially create a plethora of new risks to be understood and avoided.”

## Conclusion

The confluence of legislative mandates, business trends and consumer expectations has created new challenges for healthcare. In order to thrive, risk managers must effectively transition from protecting value and minimizing loss (downside risk) to creating value (the upside of risk).

Clearly, these seismic changes in healthcare necessitate risk managers’ willingness to embrace new ideas, to think in new ways, to embrace transformational change-management skills, and to adapt an anticipatory leadership style.

Members committed to expanding their value-based competencies can count on ASHRM for tools and support to guide their successful path forward. Knowledgeable risk managers who proactively articulate insights and current solutions while establishing trusted relationships and a valued contributory presence will be poised to meet the needs of healthcare organizations in an evolving environment.

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