EVOLVE
INTEGRATE
LEAD

ACHIEVING HEALTHCARE TRANSFORMATION:
Insights from the Huron Healthcare CEO Forum

Huron Healthcare

LETTER FROM HURON CONSULTING GROUP CEO AND PRESIDENT JAMES H. ROTH

Great leadership is a balancing act: leaders must have confidence in the direction they are taking their organizations, while maintaining a healthy skepticism that keeps them alert to new opportunities. This is especially true in the rapidly evolving healthcare industry.

At this year's Forum, CEOs participated in provocative roundtable discussions about significant issues in healthcare: achieving clinical integration, exploring new sources of top-line revenue, and physician alignment. In this report, you will find insights from these discussions, including CEOs' knowledge, perspectives, and ideas.

Prominent executives in industries outside healthcare joined the Forum to discuss how they are addressing their most challenging issues. Guest speakers focused on how some of the best-run organizations have faltered due to a lack of imagination, not a lack of leadership.

I hope you find the highlights in this report valuable—not just for tomorrow or next week, but for envisioning the future of your organization.

James H. Roth
Chief Executive Officer and President
Huron Consulting Group

Executive Summary

At the fourth annual Huron Healthcare CEO Forum, executives from healthcare organizations across the country—from large multi-hospital systems and academic medical centers to smaller community hospitals—discussed the need to achieve transformation of the healthcare enterprise. For most organizations, that mandate will require improvement in the range of 20 to 40 percent.

To successfully implement this magnitude of change, healthcare leaders are examining key aspects of their business, and determining their path forward. Clinical transformation, revenue transition, scale and integration, and operational excellence are the four levers they will need to pull—in varying combinations—to achieve quality and financial goals, and advance their missions.

As healthcare leaders discussed their visions for the future, key themes for creating a foundation for success included:

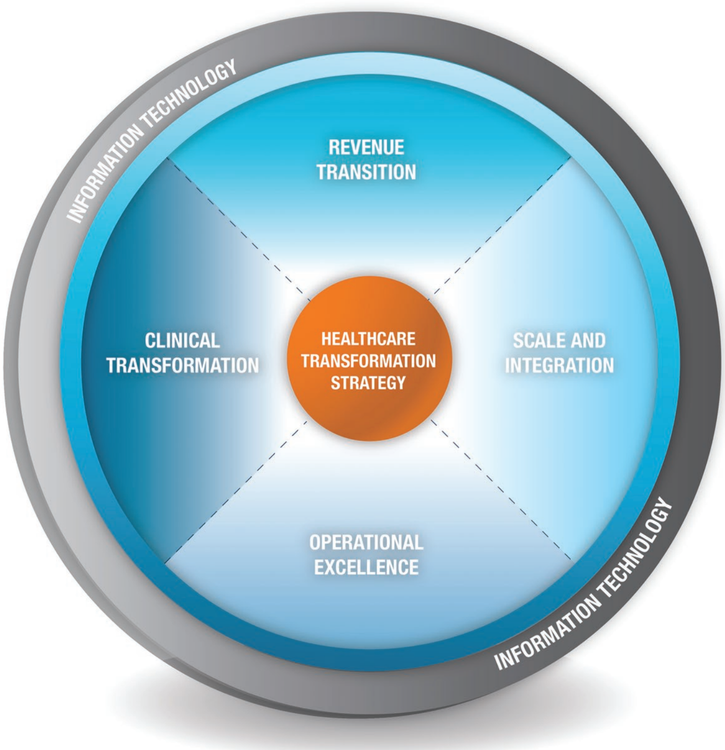
EVOLVE: Transitioning revenue streams
Organizations have begun to commit resources toward the fee-for-value model, but the majority of revenue is still tied to the fee-for-service model. Executives are bridging the two models through traditional cost-cutting and revenue-enhancement approaches, as well as exploring alternative revenue streams.

INTEGRATE: Achieving clinical integration
Clinical integration is essential to lowering the total cost of care and achieving success in the post-reform environment. Healthcare leaders are creating new organizational and governance structures that support clinical integration—as well as high-value, more affordable care.

LEAD: Developing talent for the future
New payment and care delivery models require new leadership competencies, many of which may need to come from outside traditional healthcare paradigms and roles.

Forum participants continue to be energized by the challenges and opportunities in the healthcare industry. In many ways, those challenges are coming into sharper focus as new initiatives and approaches expand. The visionary leadership of these executives is helping to make breakthrough changes today while building a stronger, more innovative enterprise for the future.

INSIDE



Huron Healthcare's Model for Achieving Healthcare Transformation

Healthcare leaders' transformational strategy must leverage organizational strengths and local market dynamics to deliver measurable value across the four key areas illustrated here. This model creates a framework that helps inform and integrate change across the enterprise.

Contributing Executives

WILLIAM (BILL) K. ATKINSON, PH.D., MPH, MPA*
Former President and CEO
WakeMed Health & Hospitals

DAVID L. BERND*
CEO, Sentara Healthcare
CEO Forum Co-chair

MARNA BORGSTROM*
President and CEO
Yale New Haven Health System
CEO, Yale-New Haven Hospital

DEAN W. CURRIE
Vice President for Business and Finance
California Institute of Technology

RONNIE DAIL
Managing Director, Huron Healthcare

MICHAEL DOWLING*
President and CEO
North Shore-LIJ Health System

CHRISTOPHER DRUMMOND
Managing Director, Huron Healthcare

WILLIAM DWYER*
President, Dwyer HC Strategist, LLC

DAVID T. FEINBERG, M.D., M.B.A.*
President, UCLA Health System
CEO Forum Chair

TERI FONTENOT, FACHE*
President and CEO, Woman's Hospital

PATRICK E. FRY
President and CEO, Sutter Health

DEAN HARRISON*
President and CEO
Northwestern Memorial HealthCare

L. LEE ISLEY, PH.D., FACHE
CEO, Granville Health System

CATHERINE A. JACOBSON, FHFMA, CPA
President and CEO, Froedtert Health

This year's contributing CEOs represent:

- More than 100 health systems, stand-alone and system-owned hospitals, academic medical centers, and physician group practices across the country.
- Combined net revenue of more than $30.2 billion.

REYNOLD JENNINGS*
President and CEO, WellStar Health System

JEFF JONES
Managing Director, Huron Healthcare

ELLIOT JOSEPH
President and CEO, Hartford HealthCare

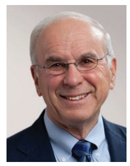
GARY S. KAPLAN, M.D., FACP, FACMPE, FACPE*
Chairman and CEO
Virginia Mason Health System

GORDON J. MOUNTFORD
Executive Vice President, Huron Healthcare

DAVID L. RAMSEY
President and CEO
CAMC Health System, Inc.

JAMES H. ROTH
CEO and President, Huron Consulting Group

RICHARD SLAVIN, M.D.
CEO, Palo Alto Medical Foundation



JOHN F. TISCORNIA
Managing Director, Huron Healthcare

MICHAEL O. UGWUEKE, DHA, FACHE
Executive Vice President / COO
Methodist Le Bonheur Healthcare

KATE WALSH*
President and CEO, Boston Medical Center

CURT B. WHELAN
Managing Director, Huron Healthcare

DAN WOLTERMAN*
President and CEO
Memorial Hermann Healthcare System

ANDREW A. ZISKIND, M.D.
Managing Director, Huron Healthcare

Contributing CEOs and their organizations have been consistently recognized for outstanding achievements, as evidenced by their inclusion in *Modern Healthcare*'s annual "Most Influential People in Healthcare"; *Becker's Hospital Review*'s "Hospital and Health System Leaders to Know"; Leapfrog's "Top Hospitals"; and *Hospitals & Health Networks*' "Most Wired" industry lists.

**CEO Forum Cabinet member*

Titles reflect positions held at the time this report was published.

KEYNOTE ADDRESS
Peter Diamandis, M.D.

Embracing Disruptive Change to Achieve Abundance

Peter Diamandis, M.D., is the founder and CEO of the X PRIZE Foundation. He is also the executive chairman of Singularity University in Silicon Valley and the author of "Abundance: The Future Is Better Than You Think."

Our brains are wired to comprehend trends in linear and local terms, according to entrepreneur and author Peter Diamandis, M.D. But disruptive change occurs exponentially and globally. Leaders who are able to understand and anticipate exponential change will lead their organizations to new levels of success as the combination of technology, passion, and capital reshapes our economy.

That was the message of "Innovation & Breakthroughs on the Road to Healthcare Abundance," the keynote presentation at the 2013 CEO Forum. Dr. Diamandis, the founder and CEO of the X PRIZE Foundation, spoke to executives about the challenges they face and the opportunities for leadership.

As context, Dr. Diamandis described Fortune 500 companies undone by their inability to embrace disruptive change—Kodak being a prime example—telling healthcare CEOs that "the industry ripest for disruption this decade is yours." The good news, he said, is that disruptive technologies also bring the potential for unprecedented growth.

Advances in computing technology will drive much of the change, Dr. Diamandis said. "Today there are 12 billion devices connected to the Internet," he said. "Seven years from now there will be 50 billion."

Disruptive forces include:

- **Artificial Intelligence:** Watson—IBM's supercomputer and "Jeopardy" champion—is only the beginning. Watson will ultimately become the definitive consultation resource, available to every patient, physician, and nurse for the cost of electricity. This combination of massive data, processing power, and cloud computing will turn smartphones into diagnostic devices, reducing the need for doctor office visits.
- **Robotics:** In the next decade, robots will change the way healthcare is delivered. For example, robots will bring disruptive change to home healthcare by helping the elderly

Peter Diamandis, M.D., delivered the keynote address at this year's Forum, urging CEOs to innovate and embrace disruptive change.

perform activities of daily living. For hospitals, robotic surgery will change operating rooms. "There is going to be a moment soon when your patients start saying, 'No, I don't want a human operating on me. I want the robot—it's perfect every time,'" said Dr. Diamandis.

- **Crowdsourcing:** Global connectedness will give patients new power—including the ability to post their genome or their hospital bill on the web and get the most advanced, expert advice.
- **3D Printing:** This technology has massive potential to disrupt manufacturing, Dr. Diamandis said. GE is already preparing to print jet engine components, and 3D printing will soon have a major impact on healthcare.

THE INDUSTRY RIPEST FOR DISRUPTION THIS DECADE IS YOURS.

– Dr. Peter Diamandis

As these forces bring rapid change to the market, government agencies, including the Food and Drug Administration, will have difficulty responding, Dr. Diamandis warned. Health systems will have to think creatively or risk being restrained by an outdated regulatory system.

Still, for every pain point, there will be amazing opportunities. Dr. Diamandis encouraged CEOs to look outside their organizations for breakthroughs.

"Innovation rarely happens inside the organism," he said. "We have a massive immune system reaction to new ideas. I tell leaders to incubate new ideas by bringing people into the organization from the outside." Opening up the system allows leaders to tap into massive new resources to solve the most challenging problems.

"We're on the brink of wholesale change," Dr. Diamandis told CEOs. Properly harnessed, that change can lead to abundance. The time to prepare for it, he added, is now.

EVOLVE

Transitioning Revenue Streams

Preparing for value while managing under volume: CEOs share strategies and ideas for timing the change.

As the shift toward value-based payment models continues, CEOs are keeping a sharp eye on revenues. Leaders at the Forum reported pursuing a variety of strategies to prepare for the shift—while continuing to manage under the existing payment system. Timing and new revenue sources are top-of-mind for CEOs, but the fundamental imperative of improving quality and reducing costs remains vital.

The robust discussions at the Forum revealed three main themes:

1) Organizations are committing resources toward the fee-for-value model—but leaders are mindful that much of their revenue is still tied to fee-for-service.

Over the past four years, executives at the Forum have had a running conversation about the volume-to-value shift. Organizations recognize the need to build capabilities to support the value model, while remaining financially sound under the current payment system. Each market is moving at its own speed, and timing the shift from volume to value remains crucial.

> "Over the last few years, we have been very focused on enhancing our value by getting our cost down."
>
> **Richard Slavin, M.D.**
> CEO, Palo Alto Medical Foundation

"Chicago remains largely a fee-for-service market," said **Dean Harrison**. "While increasing, there still is relatively little activity in bundled payments or risk-based payments compared to other markets." **Harrison** added that Northwestern Memorial HealthCare is preparing for the shift in reimbursement by focusing on quality, access, and cost to provide the "right care, at the right place, from the right provider."

Richard Slavin, M.D., said the shift is already underway for Palo Alto Medical Foundation. "Ten or 15 years ago, our organization was 50 percent capitated," he said. "We now have about 150,000 lives that are capitated out of 850,000. It's a much, much smaller percentage. However, we are fully committed to going at risk for all of our patients."

Despite the different pace of change, the emphasis is still on value. "Over the last few years, we have been very focused on enhancing our value by getting our cost down," **Dr. Slavin** said.

The shift to value requires managing care more actively and in a more accountable way. That brings long-term benefits but also impacts revenue. "Neonatal intensive care was a profit center for Woman's Hospital," said **Teri Fontenot**. "When we put a stop to early elective inductions, admissions went down 30 percent. That was a tremendous hit to our bottom line. Fortunately, we're in a financial position where we can afford to make this type of change that benefits patients."

CEOs also recognize the need to manage care beyond the hospital walls—but face the financial challenge of a payment system that doesn't yet reward such efforts. Two examples:

- **Dan Wolterman:** "The big question is how you cover the full continuum of care and make it seamless, without losing revenue. For example, Memorial Hermann is the largest home health provider in Texas, but we're losing money on reimbursement. So we're looking at the new model of home health, using smart technology, and trying to partner with others in that space. The industry has to figure out how to make new models work."
- **David Bernd:** "No one seems to have cracked the code on pulling in significant revenue at the front end of the care continuum, through prevention and wellness."

> "The big question is how you cover the full continuum of care and make it seamless, without losing revenue…The industry has to figure out how to make new models work."
>
> **Dan Wolterman**
> President and CEO
> Memorial Hermann Healthcare System

"Despite the differences in markets and organizations, everyone is moving across the continuum toward value, either with new programs, or by advancing their sophistication and capabilities," said **Curt Whelan**, managing director, Huron Healthcare.

In doing so, many organizations are going beyond traditional revenue and cost improvement initiatives and taking steps that are truly transformative. "As this conversation has progressed over the years at the Forum, it's obvious that there is a real commitment to transformative change," **Whelan** added.

2) CEOs are taking a strategic look at revenue, including alternative revenue streams.

> "Ultimately, organizations that increase quality and lower costs in their core offerings will be in the strongest position—no matter how the market shifts."
>
> **Jeff Jones**
> Managing Director, Huron Healthcare

As the payment system shifts, CEOs are working on several tracks to protect revenue. For many, this means working to optimize revenue from their core business while exploring alternative revenue streams.

Bernd said the strategic planning process at Sentara Healthcare now includes what they call the third core. "The first core is our healthcare provider business. The second core is the health plan, and the third core is new businesses—entrepreneurial investments—where we can generate revenue without relying solely on revenue from third-party reimbursement."

Inpatient revenue is a concern for many of the CEOs. "We don't believe the revenue stream is there on the inpatient side," said **Patrick Fry**. "Sixty percent of our revenue at Sutter Health is from outpatient services. Our ambulatory services are growing in close to double digits. However, the health information exchanges may have a negative impact on the top-line, so we're trying to source about 25 percent of our free cash flow from non-core services."

CEOs reported investigating health-related business lines such as nutrition and exercise centers, retail clinic partnerships, telemedicine, and mail order pharmaceuticals.

Catherine Jacobson said Froedtert Health is looking at ways to reach patients before they need hospital care, including retail and employer-based clinics. "On-site clinics are really big in Wisconsin, but they are scaled for 500-plus employers. We are exploring the possibility of scaling clinics in a manner that meets the needs of smaller employers. It's a matter of taking wellness initiatives that we've been executing for a long time and connecting them to primary care."

At the same time, leaders recognize that non-core revenue can bring its own risk. Part of the issue is how rapidly the marketplace is changing. "It used to be that retail clinics were the answer for lowering costs and expanding market share," **Wolterman** said. "Now telemedicine and virtual visits are coming into ascendance. This is another instance where today's emphasis can become antiquated tomorrow."

David Ramsey said CAMC Health System has also explored new revenue sources. "We've looked at a retail pharmacy partnership and telemedicine. However, in our market it is hard to make those numbers work."

> "We also used our employee population health management initiatives to lower our healthcare costs, and then offered those programs to the companies in our community."
>
> **L. Lee Isley, Ph.D.**
> CEO, Granville Health System

3) There are various paths for navigating the volume to value shift, but the strategy of increasing quality and reducing costs remains foundational.

"While it's always good to stay alert to new business opportunities, the lesson from other industries is that non-core ventures carry their own set of risks," said **Jeff Jones**, managing director, Huron Healthcare. "Recent history in industries such as banking and utilities illustrates that diversification as a primary growth strategy is not always positive. Ultimately, organizations that increase quality and lower costs in their core offerings will be in the strongest position—no matter how the market shifts."

At Woman's Hospital, the emphasis is on operational efficiency. "Our organization is working to grow top-line revenue," **Fontenot** said. "However, we're also very focused on managing expenses. Reducing cost is very important for the current and future environment."

A strong emphasis on quality and costs is also important to Granville Health System. "As a small, community-based safety-net hospital, we have found a niche being early adopters of quality," said **L. Lee Isley, Ph.D.** "We also used our employee population health management initiatives to lower our healthcare costs, and then offered those programs to the companies in our community. That has allowed us to promote our system and keep people in our community from migrating to competing providers."

CASE IN POINT

Timing the Shift in Three Different Markets

Leaders participating in the Forum not only share ideas and successes, but report on how the shift in payment models is progressing in different markets. Here are three quick snapshots.

Boston, MA

"Massachusetts is seven years into the Affordable Care Act, or a version of it. It is an interesting market. Very few employers moved employees to the exchanges. There is more employee-sponsored healthcare now than there was before. And there is a quality impact—the health status of groups that are traditionally left behind in health insurance reform has definitely improved." – **Kate Walsh**

Los Angeles, CA

"There are approximately 200,000 patients in our system that are associated with a large component of risk. From a revenue standpoint, the shift to taking on risk is small compared to the overall revenue. But we believe risk is the future, and we are making decisions to support and grow that business line—even though in the short term it can have a negative impact on current business." – **David Feinberg, M.D.**

Seattle, WA

"A very small percentage of our market has moved to fee-for-value so far. There are some one-off bundled payment programs with some employers, and we're talking to large employers about a capitated product. I do not think we will see a big shift in our market soon. Ultimately, I want to ensure that we have enough patient care to provide patients to a critical mass of clinicians, so we can provide high quality, appropriate care at the right price." – **Gary Kaplan, M.D.**

Michael Ugwueke commented on the link between revenue and quality at Methodist Le Bonheur. "We have a bedside drug delivery partnership with Walgreens in two of our hospitals as a way to reduce readmissions and improve patient compliance with treatment regimens. So far, it's working well, and we are exploring for the rest of our hospitals."

Even systems that are growing revenue, like Memorial Hermann, remain focused on quality and cost. "The growth on the revenue side is helpful," **Wolterman** said, "but we're committed to taking costs out." The organization is pursuing strategies such as standardization and consolidating services to improve quality while reducing costs.

"Each organization is charting its own path," said **Gordon Mountford**, executive vice president, Huron Healthcare. "Markets are driving different responses, but providing higher quality care at a lower cost is a winning strategy under any scenario. CEOs continue to show a commitment to that approach."

"Markets are driving different responses, but providing higher quality care at a lower cost is a winning strategy under any scenario. CEOs continue to show a commitment to that approach."

Gordon Mountford
Executive Vice President, Huron Healthcare

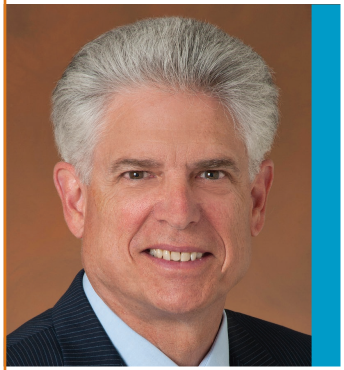
CEOs recognize the need to manage care beyond the hospital walls—but face the financial challenge of a payment system that doesn't yet reward such efforts.

EVOLVE: Key Takeaways

- The transition from volume to value is happening at different speeds in different markets, but executives remain committed to preparing for the shift.
- Organizations must understand where current and future top-line revenue is coming from with a high degree of specificity.
- Over-reliance on revenue from inpatient care carries one set of risks; reliance on new, alternative revenue streams carries another.
- Moving too fast to reduce utilization weakens revenues; moving to reduce costs and improve quality strengthens the organization in any market.

Jet Propulsion Laboratory: Pursuing Excellence in Operations and Outcomes

The Jet Propulsion Laboratory (JPL) in Pasadena, California is a federally funded research and development facility managed by the California Institute of Technology for the National Aeronautics and Space Administration (NASA).



Stephen Proia is chief financial officer and director for business operations, Jet Propulsion Laboratory.

Since the 1930s, JPL has been at the forefront of space exploration. The organization launched America's first satellite, Explorer 1, in 1958, and currently has 19 spacecraft and nine instruments flying. The spacecraft JPL develops are extraordinarily complex machines that leverage the intersection of science, technology, and engineering.

JPL's Stephen Proia drew several parallels between the work at JPL and the work of leading healthcare executives:

Gaining a Granular Understanding of Costs

With fixed and large budgets for projects that can span seven to ten years, cost control is imperative. "In our business, it is crucial to understand costs ahead of time and to control them. We can tell you exactly who billed what, who did what, and why it costs what it costs. Our costs are known and predictable," said Proia.

➔ **Lessons for Healthcare:** To the fullest extent possible, organizations need to be able to accurately predict the cost of the services and products they deliver. Having a deep understanding of true costs and bottom-line revenue—and the impact of business model changes on costs and revenue—will be critical in the new healthcare environment.

Balancing Costs and Outcomes

Testing parts, materials, and technology is a significant cost for JPL. The challenge is to understand how much testing is too much. Said Proia, "We can spend millions of dollars on testing that only creates incremental improvement. Once you have a probability of success around 95 percent, you're polishing the cannon ball. You are paying an exorbitant amount to gain an additional percentage point."

➔ **Lessons for Healthcare:** Healthcare leaders must be sensitive to balancing costs with outcomes, focusing in the areas that will achieve optimal results.

Engaging Employees

JPL staff comes from all over the world. Most are 'true believers' propelled by a strong shared vision. However, in order to innovate and troubleshoot, staff members also need to maintain a fresh perspective.

➔ **Lessons for Healthcare:** Tap into employees' strengths by keeping them challenged. This also means bringing in new talent with different viewpoints to keep the organization moving forward.

20th Century Fox Television: Creating Success Through Collaboration and Passion

20th Century Fox Television is a global leader in primetime television production with a roster including *Modern Family, Homeland, Glee,* and *The Simpsons.*

"Much like healthcare, the television production business has experienced more transformational change in the past five years than in the previous fifty," said Steven Melnick of 20th Century Fox Television.

In both industries, technology is allowing consumers unparalleled power and choice; regulation consistently threatens the existing business model; and commoditization of the core business is a threat. Melnick described the current environment as the "second golden age of television," but also noted that the enormous amount of quality television creates a much more challenging ecosystem for creating and sustaining profits.

Identifying Revenue Opportunities

"The big question for us is how we monetize the new way of viewing," said Melnick. Fifteen years ago, studios were making the majority of their revenue by developing a popular show and selling it internationally or into domestic syndication or cable. Ten years ago, the DVD market exploded and represented a huge new revenue stream. Today, for 20th Century Fox Television, rapidly expanding digital businesses such as mobile, web, electronic sell-through and subscription video-on-demand are nearly double the studio's DVD business, an astonishing statistic given that digital barely existed until a few years ago.

➔ Lessons for Healthcare: Just as television studios have evolved, healthcare must also get ahead of consumer behavior and the technology curve to create new revenue opportunities, improve quality, and diversify revenue streams.

Creating Outcomes Customers Are Passionate About

The studio strives to create what they call "undeniable content"—programming and brands that inspire passion, and which viewers will follow from platform to platform, year after year.

➔ Lessons for Healthcare: Creating a unique, high quality, seamless patient experience across the care continuum helps create passion that results in patient loyalty—an essential component of success under population health models, and a buffer against the commoditization of healthcare services.

Steven Melnick is senior vice president of marketing for 20th Century Fox Television. Melnick directs and supports marketing and monetization strategies for the studio's properties across all platforms and throughout their lifecycle.

Encouraging Collaboration Among Gifted Professionals

"At the end of the day, we are a creative-driven organization and our success is defined by our ability to produce and sustain hits. That requires an incredibly high level of collaboration among a disparate group of the most inspired creators and forward-thinking executives," said Melnick. In this environment, there are no "B players"—excellence is now a requirement for success.

➔ Lessons for Healthcare: The new era of healthcare necessitates an unprecedented level of collaboration between and among senior executives, physicians, care teams, and boards. All need to be working toward common goals, in support of a common mission, and empowered to do their absolute best each day.

INTEGRATE

Achieving Clinical Integration

Effectively managing alignment, governance, and payment reform remains crucial as CEOs navigate the transition.

The journey toward clinical integration is well underway for Forum executives. Leaders have pursued various strategies, with some moving faster than others, depending on their organization and their market. Despite their differing circumstances, however, there was wide agreement that clinical integration is essential to delivering high quality, affordable care and achieving success in the post-reform environment.

During discussions, three main themes emerged:

1) Physician alignment strategies for clinical integration vary from market to market. Systems that have moved further along the alignment path are now beginning to confront—and resolve—operational issues.

> "UCLA Health System is very integrated… We use data to drive quality and our culture encourages those efforts. Underperforming physicians tend to either improve or leave."
>
> **David Feinberg, M.D.**
> President, UCLA Health System

CEOs reported taking a range of approaches to physician alignment. "UCLA Health System is very integrated," said **David Feinberg, M.D.**

Having both the physicians and a wealth of data allows UCLA to drive toward quality. "The physicians we are bringing in are very interested in driving costs down and improving value," **Dr. Feinberg** said. "We use data to drive quality and our culture encourages those efforts. Underperforming physicians tend to either improve or leave."

Metrics are also important when working with an independent physician association (IPA), said **Dan Wolterman**.

"Our physician group now has data that tracks productivity and quality metrics for our physicians. Over a year ago, we let physicians know where they stood with their numbers. Since that time, we have dropped a number of underperforming doctors. That sent a message that this is real."

In other markets, physician alignment efforts have moved at a different pace, following different paths:

- **Michael Ugwueke:** "Methodist Le Bonheur is still early in our clinical integration journey. We have 350 employed physicians today. Two or three years ago it was less than 10. Ideally we want to employ as many as we can."

> "We have 350 employed physicians today. Two or three years ago it was less than 10. Ideally we want to employ as many as we can."
>
> **Michael Ugwueke**
> Executive Vice President / COO
> Methodist Le Bonheur Healthcare

- **Patrick Fry:** "Sutter Health is organized by geographic regions. Each region has what we call a medical foundation that has an integrated relationship with an independent physician association (IPA). In the last five years, we put together the Sutter Physician Network with about 3,000 physicians inside the medical foundations and another 3,000 in independent physician relationships. It is essentially a virtual group. There are clinical standards for being in the network. That is now the network for our health plan."

For **Elliot Joseph**, the right approach involved creating a clinical integration organization that includes private practice physicians as well as physicians employed by or associated with Hartford HealthCare. "We have mostly private practice doctors," **Joseph** said. "This is the vehicle to organize them around outcomes, cost reduction, and ultimately contracting."

Joseph reported that the organization has already signed its first value-based contract and is about to sign more. "The good news is that these contracts will bring more revenue to the physicians for improving care than they would have achieved independently. Whether we can get the data and manage the care as we move toward risk is what we're all watching closely."

Although organizations are taking different approaches, all recognize the critical role that successful hospital-physician alignment plays in their ability to deliver value.

"Achieving physician alignment—in the way that works best for your organization—is clearly a crucial first step," said **Andrew Ziskind, M.D.**, managing director, Huron Healthcare. "As organizations move down the clinical integration path, operational issues inevitably arise. Managing those issues and achieving true operational efficiency of acquired or affiliated practices isn't always easy, but it is one of the significant drivers of success."

2) To make clinical integration work, hospitals and health systems must create new governance structures, including significant physician-led governance.

CEOs reported working with stakeholders on a wide range of issues, including: How much governance can be centralized, and what can remain regional or local? Where does governance for quality issues reside? How can community engagement be maintained across large geographic areas when governance is elevated to the system?

"We have everyone economically and strategically aligned for the first time," said **Dean Harrison**. "We are now evaluating new ways to manage and govern the clinical enterprise. For example, we are now able to integrate quality across the entire health system."

Richard Slavin, M.D., said his experience was similar. "We used to have 32 governance boards managing 24 hospitals. Four years ago we narrowed it to four governance boards. Having standard quality expectations and one CMO has resulted in phenomenal quality metric improvements in all hospitals."

> "We have everyone economically and strategically aligned for the first time. We are now evaluating new ways to manage and govern the clinical enterprise."
>
> **Dean Harrison**
> President and CEO
> Northwestern Memorial HealthCare

Other CEOs are also moving to put new governance structures in place:

- **Catherine Jacobson:** "Our system sets the strategy, the goals, and the bar, and then those cascade down to the hospital level. We shoot for one set of goals so we're all driven by the same metrics."
- **Gary Kaplan, M.D.:** "We have moved to service line leadership structures so that there are single standards of care. This has accelerated alignment

> "Clinical integration isn't simply about whether orthopedics talks to primary care. It is also about long-term support services in the communities we serve."
>
> **Kate Walsh**
> President and CEO, Boston Medical Center

in service lines across the institution."

In addressing these and other issues, one size does not fit all, but it is clear that developing effective models for clinically integrated governance is essential for success.

"Engaging physicians in self-governance and overall governance is a crucial step in this new era of hospital and physician alignment," said **John Tiscornia**, managing director, Huron Healthcare.

3) Managing care beyond the four walls of the hospital remains a key challenge, since many of those care activities are not yet supported by the changing payment model.

There was broad agreement that effective clinical integration requires managing care beyond the hospital doors through community partnerships and services that help people stay healthy and address root causes of illness. However, there was also recognition that many of these services do not generate revenue for hospitals.

"Clinical integration isn't simply about whether orthopedics talks to primary care," said **Kate Walsh**. "It is also about long-term support services in the communities we serve, integrating behavioral health services—none of which we get paid for currently."

The necessity of timing the transition from fee-for-service to fee-for-value, discussed at previous Forums, remains an important challenge. "That's where we have to do our work," **Walsh** said. "There has to be a way to do this."

Dr. Slavin agreed, adding: "Clinical care accounts for about 20 percent of the impact on health. Behavior and social, economic, and environmental factors account for the rest. If we really have the mission of enhancing the health of the population we serve, our focus has to expand."

"In the near term," said **Mountford**, "hospitals have to navigate the transition from volume to value, recognizing

CASE IN POINT

Driving Down the Cost of Care Through Clinically Integrated Narrow Networks

As the market evolves, large systems are able to launch innovative approaches with their employees, allowing them to fine-tune healthcare programs. As an example, Memorial Hermann Healthcare System offered their employees two health plans. The more expensive plan allowed employees to see any of Memorial Hermann's physicians. On the less expensive plan, choice was limited to doctors who participated in Memorial Hermann's clinically integrated organization. After four years, data showed that care for employees in the narrow network plan was nearly 32 percent less expensive.

> "Memorial Hermann now offers only the plan that incorporates our clinically integrated physicians. That didn't make the other physicians very happy. We thought it would entice more of them to join the clinically integrated network, but so far, the net increase has been modest." **– Dan Wolterman**

that they may be investing in care activities that are not supported by the current patient payment model. Managing during this transition is one of the largest challenges CEOs face."

Dr. Kaplan pointed out the importance of meeting that challenge. "The current cost of healthcare penalizes our businesses and takes resources that could make our communities healthier in other ways," he said. "So we have an obligation to deliver value, and appropriate care. Those of us who are clinically integrated have a better chance of achieving that."

"Hospitals have to navigate the transition from volume to value, recognizing that they may be investing in care activities that are not supported by the current patient payment model. Managing during this transition is one of the largest challenges CEOs face."

Gordon Mountford
Executive Vice President, Huron Healthcare

Although organizations are taking different approaches, all recognize the critical role that successful hospital-physician alignment plays in their ability to deliver value.

INTEGRATE: Key Takeaways

- Excellence in clinical operations is foundational to delivering coordinated, high quality, affordable care.
- As physician alignment strategies progress, CEOs are leading initiatives to assure operational excellence.
- Physician participation in governance is essential to the success of clinical integration.
- Coordinating care beyond the hospital walls requires careful, strategic management that prepares for the value-based models while maintaining the bottom line.

Roll Global

Building Loyalty Through an Authentic Connection

Roll Global is a privately held, $3.4 billion international company with a portfolio of brands that includes Wonderful Pistachios, POM Wonderful, FIJI Water, Teleflora, and more.

Lynda Resnick is co-owner and vice chair of Roll Global. She has built a reputation as a world-renowned expert on marketing and building customer loyalty by creating authentic brands that connect with customers.

At the heart of every organization is a story, according to Lynda Resnick, who is also the author of the bestselling book, "Rubies in the Orchard," an authoritative guide to building memorable brands and creating fresh approaches to launching them. "People crave and connect with stories," she said. Her view is that success can depend in large part on how well organizations express their stories.

Creating a Compelling Brand Narrative

"When we acquire a new company, we often have to change the culture dramatically. We primarily do that by telling a new story about the company—where it is and where it's going. And we make sure that everyone—from the lowest to the highest-paid employee—understands, is on board, and can represent that vision in every interaction they have with our consumers."

➔ **Lessons for Healthcare:** Keep your organization's story and your mission statement consistent, and keep them top of mind for your employees and the patients you serve.

Connecting by Listening

A key part of storytelling, in Resnick's view, is listening. "When someone is diagnosed with a disease, they often enter into a state of complete confusion. To truly come alongside them, and be there for them, you have to behave like a good friend. A good friend listens to you. If you are really listening, and hearing their apprehensions and concerns, you can make lifelong connections."

➔ **Lessons for Healthcare:** Make connections with patients before they need to access care. Having a visible presence in the community—supporting marathons and walks and community health screenings—provides opportunities for making connections and listening.

Earning Loyalty

Resnick reminded CEOs at the Forum that loyalty isn't built in a day—it's an ongoing process requiring honesty and the ability to see your organization as others see it. "All organizations need to be transparent with their customers in this day and age. If you are not transparent, you will have a third party telling their version of the truth for you."

➔ **Lessons for Healthcare:** A strong brand and loyal patients will be increasingly vital in the new healthcare environment. To build patient loyalty, understand what the experience of care is like in your organization by imagining it through the eyes of a close friend or family member, and then commit to delivering the care experience you would want them to receive.

Managing Change
Strategic and Leadership Imperatives

At the Forum, three executives with deep expertise in strategy, change management, and leadership provided insights to healthcare leaders. Highlights from their remarks addressed key issues, including:

Developing a Differentiating Strategy
"To develop a strategic plan that works, you have to surround yourself with people who can think about next year, not just next week. You need people with an odd combination of urgency and the ability to think three to four years ahead." **– Dean Currie**

"It is easy to underestimate the number of constituencies that have an impact on your ability to execute a strong strategy—and the amount of stakeholder work you have to do before even thinking about making significant changes." **– Judy Olian**

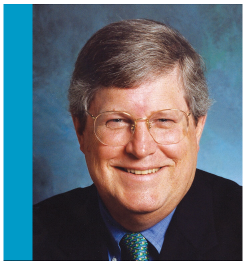
Managing Risk
"When making a change in strategy that involves significant risk, you need two things. First, you need the ability to evaluate the technological, reputational, and operational risks in addition to the financial risks you're taking. And second, you need a strong core business that will buffer against any industry or regulatory changes that you cannot predict. This portfolio approach is essential in managing through risk." **– Steven Mnuchin**

Leadership Imperatives
"Leadership is an isolating process. Fewer and fewer people tell you the truth as you climb the leadership ladder. It's a gift, though sometimes hard, when someone tells you the truth so you can hear it and work on it. Breed an environment where people can talk to you before they're walking out the door." **– Judy Olian**

"To be an effective leader, you cannot have a list of one hundred things you're trying to do. You need a short list, and everything you're doing must move you toward accomplishing those few priority items." **– Dean Currie**

Executing Transformative Change
"If you are trying to transform something, you can be sure that if you listen to everybody, you are going to come to the wrong conclusion. That's because people generally don't like change. You need a mission statement that you believe in, and that you use to bring people along. Create small wins along the way, so your people understand that the vision and mission can actually be executed." **– Steven Mnuchin**

"Executives engaging in change need to be prepared to answer the most important question stakeholders will ask, and that is, 'What's in it for me?' Answering that question helps make it personal for everyone who has to take a leap and make a change." **– Judy Olian**



Dean Currie is vice president for business and finance, California Institute of Technology.

Steven T. Mnuchin is chairman and chief executive officer, OneWest Bank Group LLC.

Judy D. Olian is dean, UCLA Anderson School of Management and is the John E. Anderson Chair in Management.

LEAD
Developing Talent for the Future

New payment and care delivery models will require new leadership skills—including some from outside the healthcare field.

It is crucial to identify the skill sets required of senior leadership for achieving success—particularly in an industry experiencing a significant magnitude of change. CEOs at the Forum agreed that the following leadership characteristics will be in high demand:

- **Proactive Change Manager:** "The number one skill set I need in a leader is how to be a proactive change manager. What does it take to really lead change—to get physicians and employees on board and create the compelling case of why change is needed? It requires a high level of communication skills." **– Dan Wolterman**

> "It's especially hard for physicians and others who are trained to be perfectionists to operate effectively in ambiguity—but they can learn to do it."
>
> **Gary Kaplan, M.D.**
> Chairman and CEO, Virginia Mason Health System

- **High Tolerance for Ambiguity:** "You don't need every 'i' dotted and 't' crossed to function—not everything is black and white. It's especially hard for physicians and others who are trained to be perfectionists to operate effectively in ambiguity—but they can learn to do it." **– Gary Kaplan, M.D.**

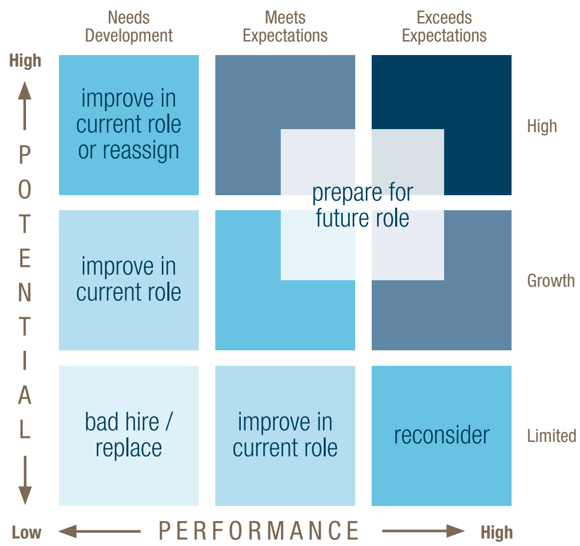
- **Compassion:** "You can't hire leaders who have everything you need for tomorrow because you don't know what tomorrow looks like. You can hire people who are both talented and incredibly compassionate—and who will come to work every day with integrity, humility, and passion. People with those traits are the people I want interacting with my staff and with my patients. Those values are really important to me and to our current team, and we frequently talk about how those are expressed." **– David Feinberg, M.D.**

- **Entrepreneurial Approach:** "As we consider new kinds of partnerships, and different kinds of funding, we need leaders who can think like entrepreneurs, who can help us excel in the new business environment." **– Catherine Jacobson**

In addition to new characteristics, leading executives will need new skills, including:

- **Understanding of Risk Management:** As executives change business models, enterprise-wide risk is also affected. As a result, senior leaders who understand not only payment risk, but risk across the organization will be invaluable.

- **Expertise in Population Health:** Most senior executives in healthcare come from a background of episodic care and the fee-for-service payment models. Going forward, leaders with a different perspective on approaching and successfully managing population health will thrive.



A Systematic Approach To Talent Identification and Development

The majority of CEOs at the Forum use some variation of the GE 9-Box framework to evaluate and develop their organizational talent.

Source: Huron Healthcare, graphic adapted from GE 9-Box approach.

- **Discipline Around Data-Driven Solutions:** Reliance on intuition and experience is no longer enough for making key decisions. Leaders need to be highly skilled at using data analytics to drive decision-making at every level of the organization.

Senior Leadership Talent Acquisition and Retention Challenges

Finding and keeping talent when demands are changing every day is no small task. And in the current competitive market, top talent is in jeopardy of being recruited. In response, CEOs and their boards are coming up with various long-term incentive strategies to retain senior leaders. These strategies are focused in four key areas:

- **Providing Top Employees with Opportunities to Engage More Deeply:** Giving top talent a chance to invest in the organization financially, or offering related investment, business, or professional development opportunities encourages organizational relationships that facilitate employee retention.
- **Staying Close to Key Senior Executives:** Top-performing executives at leading organizations are almost certainly receiving regular calls from recruiters. Maintaining close relationships with key executives allows leadership to react before those recruiting conversations reach advanced stages.
- **Developing Innovative Retention Plans:** For executives who are key components of a succession plan, CEOs are creating new approaches to retention plans that give executives strong incentives to stay long term.
- **Getting Boards Involved:** Retaining top talent requires big-picture, strategic thinking and the support of the board. Involving board members early in decisions about retention approaches is critical.

Encouraging Physician Leadership

Physician leadership is crucial to success under value-based payment models. Executives are using a mix of proven and new techniques to develop physician leaders:

- Offering high-potential physicians formal leadership development and MBA-style programs that are flexible enough to fit their schedules.
- Creating dyad working partnerships between physicians and non-physician executives.
- Providing physicians with one-on-one training and coaching to help overcome barriers to leadership success.
- Starting leadership training for younger physicians, and providing more ways to access the training, including online.

> "As we consider new kinds of partnerships, and different kinds of funding, we need leaders who can think like entrepreneurs, who can help us excel in the new business environment."
>
> **Catherine Jacobson**
> President and CEO, Froedtert Health

"Our success is completely dependent on having physician talent throughout our organization," said **Richard Slavin, M.D.** "I am looking for how much personal accountability an individual can take for leading change in the unit they're managing. The unit doesn't matter—I need them to have confidence and enthusiasm for leading their area of responsibility."

"Hospitals that have already done the work of intensifying physician alignment and collaboration will be best-positioned to offer high-quality outcomes at lower costs in the new healthcare landscape," said **William Dwyer**, president of Dwyer HC Strategist, LLC. "All others risk the difficult challenge of catching up."

LEAD: Key Takeaways

- New models of care delivery, payment, and enterprise management require new leadership competencies, many of which may come from outside traditional healthcare paradigms and roles.
- Physicians have a major influence on the success of an organization. Therefore, a multi-year, intensive focus is needed to help cultivate strong physician leadership skills.
- Organizations must align leadership skills and competencies to their transformation goals, considering new titles and functions to meet new imperatives. A strategic approach to talent acquisition, development, and retention is crucial for achieving long-term success.
- Executives need leaders with next-generation characteristics and skill sets to fuel success in a challenging and evolving market.

CASE IN POINT

Choosing the Right Leaders for a Strong Future

Retaining and nurturing talent depends on making the right hiring decision in the first place. Here is a snapshot of how three leaders approach hiring:

"When selecting a senior leader in this complex environment, it is imperative that they have good chemistry with the rest of the leadership team, because no one can get things done in a vacuum. The chemistry of the group is a major contributor to the success of the organization." – **David Bernd**

"Recruiting, developing, and retaining top talent has been at the core of our success." – **Dean Harrison**

"Our organization takes a very systematic approach to talent screening. The software we use looks for service-mindedness, and we have learned to live by the results of the screening. Every time a score comes back in the grey zone and we override it, we've been wrong. We don't override it anymore, period." – **David Feinberg, M.D.**

Conclusion

Achieving transformation of the healthcare enterprise—improving performance by 20 to 40 percent while transforming care delivery and incorporating new payment models—continues to be a major leadership challenge for healthcare executives. As CEOs lead their organizations through this evolution and its many challenges, the benefits of success are becoming a reality: higher quality care that is more affordable, innovative, and accessible. The healthcare leaders at this year's Forum are fully committed to delivering on the promise of better healthcare for the patients and communities they serve.

ACKNOWLEDGEMENTS

Special thanks to Huron Healthcare CEO Forum Chairman David Feinberg, M.D., president of UCLA Health System, and his team for their partnership in inviting many of the guest speakers, and for their work and deep commitment to making the event and this report a valuable resource for healthcare leaders.

Forum Co-chair, David Bernd, CEO of Sentara Healthcare, was also instrumental in the development and execution of the program, as were each of this year's CEO Forum Cabinet members. Their input and guidance on the Forum structure and content, and their leadership during breakout discussions, created a rich learning environment and report.

Huron Consulting Group CEO and President James H. Roth, Huron Healthcare Executive Vice President Gordon Mountford, and Huron Healthcare Managing Directors Ronnie Dail, Chris Drummond, Jeff Jones, John Tiscornia, Curt Whelan, and Dr. Andrew Ziskind, also contributed to this report. We are also grateful for the contributions of Huron Healthcare Advisory Council member William Dwyer of Dwyer HC Strategist, LLC.

Huron Healthcare

HealthcareCEOForum.com

ABOUT HURON HEALTHCARE

Huron Healthcare is the premier provider of performance improvement and clinical transformation solutions for hospitals and health systems. By partnering with clients, Huron delivers strategy and solutions that improve quality, increase revenue, reduce expenses, and enhance physician, patient, and employee satisfaction across the healthcare enterprise. Clients include leading national and regional integrated healthcare systems, academic medical centers, community hospitals, and physician practices.

To see how Huron Healthcare solutions can empower your mission, contact us at 1-866-229-8700 or visit huronconsultinggroup.com/healthcare.