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To Manage Volatility, Sharpen Your Enterprise Risk Management Strategy

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Nearly every U.S. state had at least 70 percent of their hospital and intensive care unit beds occupied in early December, a daunting situation with the advent of the new omicron variant.[1] But new COVID-19 variants aren't the only culprits. It's also the increasing number of bedside nurses who are leaving hospital-based care for less stressful nursing positions—and stressed hospitals are struggling to close gaps in staffing.[2]

Across the industry, digital investment and enablement have become a table-stakes essential for providers as demand for virtual connections to care—including remote patient monitoring, a market projected to reach $4.1 billion by 2028—rises.[3] Yet, a HIMSS 2021 survey found that 52 percent of healthcare executives say their organization has not progressed beyond the pilot stage for digital innovation.[4] Many struggle to prioritize investments and measuring ROI remains a challenge.

Meanwhile, vulnerabilities associated with remote staffing and new digital entry points for care exposed not-for-profit hospitals to heightened risk of cybersecurity attack, with the volume and severity of cyber-attacks reaching historic levels.[5]

Make no mistake, while this volatility has been exacerbated by the pandemic, it's a thread that's now woven into the industry's new normal. Managing these conditions

1 Kimberlee Speakman, "Nearly All States Have At Least 70% of Hospital and ICU Beds Occupied," *Forbes*, December 5, 2021.
2 Andrew Jacobs, "'Nursing Is in Crisis': Staff Shortages Put Patients at Risk," *The New York Times*, August 21, 2021.
3 *Remote Patient Monitoring System Market Size, Share, and Trends Analysis Report by Product, by Application, by End-use, and Segment Forecasts, 2021–2028*, Grand View Research, January 2021.
4 Susan Morse, "The Digital Revolution Has Begun but 52% of Executives Have Not Progressed Beyond the Pilot Stage," *Healthcare Finance*, August 11, 2021.
5 Nick Hut, "Fitch Describes the Heightened Risk Posed by Cyber-attacks on Not-for-Profit Hospitals," HFMA, July 27, 2021.

demands a measured response from hospital and health system boards, not patience and rationalization.

A Systemic Approach to Enterprise Risk Management Will Be Essential to Provider Success in 2022 and Beyond

Traditionally, enterprise risk management within hospitals and health systems has primarily focused on compliance and efforts to improve margins. However, today's enterprise risk management strategy demands the nimbleness of leadership to respond to the "next normal" by predicting, identifying, and monitoring risks such as worker shortages, cybersecurity, digital disruptors, and price transparency—and then ensuring responses are aligned and coordinated.

→ Key Board Takeaways:

1. Lead through the staffing crisis:
   - Assess caregiver turnover rates across specialties.
   - Benchmark rates with local and national averages.
   - Work with leadership to create sustainable staffing roles, practices, and models.

2. Establish a philosophy for growth:
   - Evaluate the potential for M&A.
   - Ensure there is capacity for a successful integration—operationally and culturally.
   - Determine the organization's level of maturity around enterprise risk management.

3. Tie IT investments to business goals:
   - Build new metrics to evaluate performance more effectively.
   - Monitor engagement with new technologies.
   - Develop a business plan that reduces the potential for friction in the digital experience.

This is an approach that has long been deployed by organizations in the high-tech, manufacturing, and energy industries. Doing so will help leaders combat economic and operational uncertainty while strengthening stability in this era of transformative change.

Disrupting Traditional Thinking Around Risk

A recent Guidehouse analysis found that health systems have diversified their risk-based payment strategies with a broader array of business lines, and nearly 60 percent of health systems plan to advance into risk-based Medicare Advantage models in 2022.[6] Leaders are increasingly viewing risk models as a lever for revenue growth—critical given decreased demand for inpatient care.

Pre-COVID, leaders demonstrated an emphasis on growth, seeking opportunities not just to shore up market share, but also to expand key capabilities and gain access to scale. Growth was considered strategic, so there was minor focus on measuring the ROI of these pursuits beyond revenue. Merger and acquisition (M&A) deal volume reached historic proportions in 2017, and a rise in megadeals captured headlines from 2017–2018. Deals weren't limited to hospitals and systems. Physician practices also drew strong interest, with hospitals *acquiring 3,200 physician practices* from 2019–2020 alone.

But as hospitals and systems paid high prices for assets, leaders often had little experience in—or the stomach for—integration and margin creation. Without a clear vision for what an integrated system would look like and a path forward for achieving this vision, organizations often struggled to meet post-transaction goals two years after a merger.[7]

Further, as organizations accelerate digital investments to appeal to consumers' increased desire[8] for digitally enabled care experiences—and as they work to strengthen resilience of existing infrastructure[9] to protect organizations from new threats and risks—some expensive infrastructure improvements have missed their mark. According to a consumer survey, more than a quarter of consumers have

6 *2021 Risk-Based Healthcare Market Trends*, Guidehouse, November 8, 2021.
7 Christopher Cheney, "M&A Study: Acquired Hospitals Often Struggle to Meet Financial Goals," HealthLeaders, October 12, 2017.
8 Jackie Drees, "Digital Health Adoption in 2020: 5 Tools Consumers Increased or Stopped Using," Becker's Health IT, March 4, 2021.
9 "OECD Policy Responses to Coronavirus (COVID-19): COVID-19 and a New Resilient Infrastructure Landscape," February 22, 2021.

changed providers due to a poor digital health experience and 53 percent would make the switch if it meant gaining access to touchless patient intake and registration tools.[10]

At a time when revenue pressures are tightening for not-for-profit hospitals, with credit downgrades outpacing upgrades in 2020, health plans have made moves to systematically market-adjust prices for outpatient services and more aggressively use artificial intelligence to deny inpatient care.[11] By the end of 2020, the average claim denial rate for hospital claims rose 23 percent over 2016.[12]

Healthcare boards need a process for systematically structuring their organization's best strategic thinking around enterprise risk management. This begins by identifying organization-specific rules around risk management, taking into account the organization's capacity for risk and the internal and external challenges that could affect performance. It also involves determining key metrics that will give boards clear insight into the risk pressures their organizations face.

Developing a More Strategic Approach

In a post-COVID risk environment, healthcare boards can more effectively keep a pulse on risk by keeping these three questions top of mind.

1. What Is Our Caregiver Turnover Rate?

Staffing shortages—especially nursing shortages—threaten a hospital's ability to provide evidence-based care. They also strangle patient throughput, leading to scenarios where patients are intubated in hallways or—even worse—die waiting for care. Further, they impact the quality of patient discharge and the level of support staff can provide when patients or their families have questions related to their condition.

The impact of staffing shortages extends beyond the quality of care provided during the pandemic. It also leaves a lasting impression among consumers in the community the organization serves. Board members must keep a careful eye on metrics such as turnover rates across specialties compared with market and national

10 Sara Heath, "Poor Digital Health Experience May Push Patients to Change Docs," *Patient Engagement HIT*, December 8, 2020.

11 Alia Paavola, "22 Non-Profit Hospitals Hit with Credit Downgrades Last Year, Fitch Says," Becker's Hospital CFO Report, January 12, 2021.

12 Jacqueline LaPointe, "Hospital Claim Denials Steadily Rising, Increasing 23% in 2020," *RevCycle Intelligence*, February 2, 2021.

averages. They also should proactively work with senior leaders and key stakeholders to determine: "How can we retain care talent?" Evaluating the extent to which organizations can ensure staff roles, practices, and models can support the staffing crisis more effectively is critical.

2. What Is Our Philosophy for Growth?

It's important to establish a philosophy for growth—and stick to it. "Thou shalt not extend beyond your primary service area" is a tongue-in-cheek principle, but it's rooted in the need to devise a thoughtful, highly strategic approach to healthcare M&A. Certainly, the pandemic magnified the difference between "haves" and "have-nots" in healthcare. Leading providers gained the opportunity to leverage their strong balance sheets to shape their local markets, while smaller players that struggled to maintain cash flow through the crisis found themselves on the lookout for organizations to acquire them. Board members whose organizations are financially well-positioned to acquire a healthcare asset must evaluate the potential for M&A based on their ability to extend their winning formula. This includes the capacity of leaders to ensure a successful integration, operationally and culturally. It also includes the organization's level of maturity around enterprise risk management. We have seen a long list of M&A deals that failed to close because the logic behind their execution ultimately did not make sense to boards in a rising-risk environment.

3. What Is Our Business Plan for Technology Investment?

A clear business plan for generating ROI is key. As large systems bet big on the power of data analytics to finetune operations, quality of care, and revenue,[13] and as hospitals and systems clamor to develop their digital front door, boards need to ensure that these investments are tied to business goals, with metrics for evaluating performance. Such metrics could include the number of new appointments scheduled through a hospital's mobile app, reductions in no-shows or wait times, increased patient financial engagement (e.g., billing notices are sent via secure text, the patient portal, or an app), and patient satisfaction. They might also include the degree to which appointments are scheduled electronically versus with live support. As new technologies for consumer engagement proliferate, developing a clear business plan for investment not only ensures organizations obtain value from their investment, but also reduces the potential for friction in the digital experience—an emerging area of concern.[14]

13 Jessica Kim Cohen, "Why 17 Systems Invested $95M in Data After a Tough Year," *Modern Healthcare*, July 14, 2021.

14 Dave Muoio, "HIMSS21: Hospitals, Payers, and Startups Clamoring to be 'Digital Front Door,' and It's Overwhelming Patients," Fierce Healthcare, August 10, 2021.

Maintaining a Future-Focused View

Across the industry, healthcare leaders are pondering what care delivery will look like once the pandemic is over. One thing is certain: this future state will not include a return to the pre-pandemic status quo—not with the level of disruption and change that has already occurred. By hardwiring a measured response for enterprise risk management, healthcare boards can strengthen resilience and better position their organization to successfully manage volatility in a COVID-transformed environment.

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