FYA For Your Advantage
An Essential Tool for Healthcare Leaders
INNOVATIONS
Volume 6, Issue 14
July 16, 2007
From TrendLeader Connections
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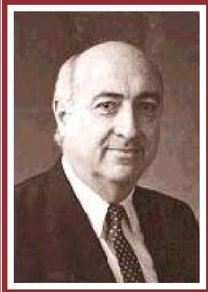

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About FYA

FYA – *For Your Advantage*, is a free twice-monthly newsletter published by TrendLeader Connections.

With every issue, FYA provides insights into the topics that concern healthcare leaders today and the challenges that will be faced in the near future.

The newsletter is provided free to healthcare CEOs only. CEOs may use the material in any way they wish – except for the editorial content that is copyrighted by the author. You are welcome to print copies of FYA.

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Innovation 2008 - Expanding The Possible

By John W. Kenagy, MD, MPA, Director, Kenagy & Associates

We are now seven months into a yearlong look at the future of innovation in healthcare. Framed as "What's Hot" and "What's Not Hot," healthcare innovation in 2008 will be transitioning to a different set of goals and a new framework for success. The future of innovation in healthcare looks like this:

Healthcare Innovation 2008

What's Not Hot	What's Hot
1. Capital expenditures for new technology and facilities	1. Growing Return on Investment (ROI) from operations
2. Implementing IT systems	2. Developing people and relationships
3. Power and compliance	3. Purpose and commitment
4. Consultants, external solutions and manufactured innovations	4. Local knowledge, ingenuity and real-time problem solving
5. Fighting entrenched cultures	5. Transforming your many cultures
6. Specialty hospitals	6. Flexible, multi-purpose hospitals

For the last 15 years, the left side of this chart has dominated healthcare innovation but "the times they are a changing." By 2008, hospitals and health systems will increasingly be innovating on the "What's Hot" list on the right.

The transformations that have occurred in other complex industries make this future not only understandable, but also completely predictable. New competitive advantage will be centered on a different basis of competition. When the basis of competition changes, it's time to catch the new wave – it is time to find and develop "what's hot."

For example, in last month's *For Your Advantage,* we looked at the transformation of the airline industry. This transformation is not being led by the industry leaders – United, American, Delta, Northwest, *etc*. The old leadership is either in, emerging from or on the brink of bankruptcy. Who is leading the change? An airline that was only a tiny, regional Texas carrier when they began the transformation – Southwest Airlines.

Southwest exploited the *change in the basis of competition* in the airline

(Continued...)

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Innovation 2008 - Expanding The Possible (Continued...)

industry. See last month's *FYA* for all the details. The point is that, despite the fact that what Southwest does seems so simple, United, American, Delta, Northwest, *etc*., find it almost impossible to compete.

UAL, American, etc. are trying to defy a basic business premise for established organizations – they are betting on succeeding on the old basis of competition and they continue to struggle because it is "almost impossible" for them to transform. The evidence collected by Harvard Business School Professor Clayton Christensen's on disruptive innovation makes it perfectly clear. As he states in the December 2006 *Harvard Business Review*,

> "The existing players in any sector have resources, processes, partners and business models designed to support the status quo. This makes it difficult and unappealing for them to challenge the prevailing way of doing things. Organizations are set up to support their existing business models…..it is *almost impossible* for them to..[transform] themselves."

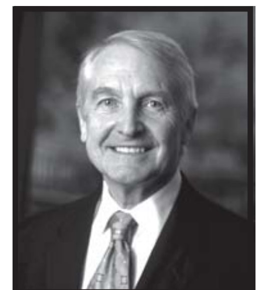
"Almost impossible" sounds like a bleak prognosis for the "existing players." But is the glass half empty – or is it half full? And what does this mean for healthcare? Answering these questions brings Adaptive Design® into the picture.

As frequent readers of this column know, I worked with Clay as a Visiting Scholar at Harvard Business School for four years, specifically on the question of disruptive innovation in healthcare. This research, teaching and my 35-years of experience led me to approach this dilemma with a "glass half full" mindset. If it's "almost impossible," that means some things are possible. Therefore, I do not see the transformation of healthcare being driven by a horde of disruptive innovators disintegrating existing hospitals and systems. The future is not the disruptive "almost impossible," it is expanding the highly adaptive "possible" for those who will grasp the opportunity.

Hence, our partner hospitals and health systems don't disrupt; they adapt. They don't want to be victims of the future; they want to make the future by expanding the possible through Adaptive Design.

Adaptive Design is a "how to do it;" a unique, simple, structured approach that a hospital or health system can use to "expand the possible," move to the "What's Hot" side of the Innovation 2008 chart and become part of the transformation of healthcare.

Learn more about Adaptive Design at our website at http://www.kenagyassociates.com. Or, if you want more specific information, e-mail me at jkenagy@kenagyassociates.com. The power of Adaptive Design will expand what's possible for your organization. It's not rocket science; it's just different. If you want something different for your organization, the option is available. Is it time to expand your possiblities?



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About

PHNS is an innovative healthcare services company providing strategic outsourcing services in information technology, health information management and receivables management to over 400 hospitals. PHNS is not a consultant, vendor or software company but a partner, a solution. PHNS understands healthcare because our partners are healthcare and healthcare only. Unlike its competitors, PHNS strategically aligns itself with a hospital's clinical and financial goals and objectives. Through its unique business model, PHNS reduces costs by aggregating, consolidating and sharing resources among its participating hospital partners. PHNS helps hospitals manage information systems, computer technology, patient records, coding and patient billing to improve patient care, safety and efficiency and increase profitability and efficiency. For more information, visit www.phns.com.

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Healthcare Quality – A Board Responsibility

By: Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

Until recently, board members of not-for-profit and public hospitals rarely were given the types of "fiduciary duty" lectures that board members of publicly held companies have been given for many years, particularly after the adoption of the Sarbanes-Oxley Act. But there has been increasing analysis and scrutiny of the governance of not-for-profit and public hospitals, including the realization that board members of those hospitals also have fiduciary duties that are very similar to those of board members of public companies. See, for example, my prior *FYA* commentaries on governance:

- "The boards of many not-for-profit hospitals have voluntarily begun to conform to Sarbanes-Oxley....Rating agencies have now joined the chorus that is insisting on stronger corporate governance and oversight." (*"Assessing Your Hospital's Corporate Governance," FYA*, 1/5/04);
- "Who is the board accountable to when it tolerates its hospital to operate inefficiently, ineffectively or inappropriately? This is not an academic question [since Congress and the Department of the Treasury] are all questioning the tax-exempt status of hospitals and health systems…" (*"Who Really Governs Not-For-Profit Hospitals," FYA*, 4/5/04);
- "Until recently not-for-profit hospital board rooms were in a 'time warp' where there would be pleasant board meetings, with a nice dinner, and 'the CEO told you what he wanted approved.'" But now "A recent 2005 Governance Institute survey of 101 not-for-profit systems with more than 2,000 beds found that over 86 percent had voluntarily adopted many of the governance provisions of Sarbanes-Oxley," (*"Not-For-Profit Hospital Governance – in a 'Time Warp'," FYA*, 6/5/05); and
- "I strongly recommend that all hospital CEOs provide each member of their hospital's board of directors with a copy of The American Health Lawyers' publication entitled "New Guidance to Governing Board on Compliance Plan Oversight…." (*"Compliance Oversight by Hospital Boards," FYA*, 4/2/07).

And now there's another major addition to the fiduciary duties of board members of not-for-profits and publics – oversight of quality. While I think that fiduciary duty probably has always existed, it is suddenly under increasing focus as a result of attention to quality (or lack thereof) in our healthcare system. Another must read for board members is the latest publication co-sponsored by the American Health Lawyers Association and by the Office of the Inspector General of the U.S. Department of Health and Human Services: "*Corporate Responsibility and Healthcare Quality: A Resource for Healthcare Boards of Directors.*" This excellent publication makes it clear that "oversight of quality also is becoming clearly recognized as a core fiduciary responsibility of healthcare organization directors" and also states that "quality is also emerging as an enforcement priority for healthcare regulators."

It's a very helpful guide for board members because it is an educational resource that "is designed to help healthcare organization directors ask knowledgeable and appropriate questions related to health care quality requirements, measurement tools, and reporting requirements."

Your board members ought to read it and discuss how they are going to satisfy the rapidly expanding quality and other fiduciary duties that are now being imposed on them.

I would like to hear your comments.
Send them to:
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About

FYA - For Your Advantage is brought to you by TrendLeader Connections. The function of TrendLeader Connections is producing educational materials and seminars that help healthcare executives differentiate between fads and trends; and making connections with "Trend Leaders" within the healthcare industry.

We are committed to delivering new perspectives and ideas, creative and innovative healthcare solutions, provocative concepts and quality educational materials to today's healthcare leaders. We want to concentrate on "what comes after what comes next."

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Reviewing Current Healthcare Politics

Set aside the conflict in the Middle East and what you have remaining as the top political issue is healthcare. There are 18 months to go until the election and presidential candidates in both parties are promising to overhaul the system and cover more, especially the 44.8 million people without insurance.

Republican candidates are promising to expand coverage by using a variety of tax incentives to empower consumers to buy it themselves, from private insurers. By in large, the Democratic candidates are proposing strengthening the private employer-based system. But many Democrats also see a strong role for government, including, in some plans, new requirements that individuals obtain insurance and that employers provide it, along with substantial new spending to subsidize coverage for people who cannot afford it.

Both parties are closely watching the action in the states as potential blueprints for a centrist compromise, especially in Massachusetts, which just began a major plan aimed at requiring every individual to have insurance.

According to *The New York Times*, this amount of attention, this early, comes in response to the growing anxiety among voters, and much of American business, about the cost of healthcare. Premiums for family coverage have risen by 87 percent since 2000, according to the Kaiser Family Foundation.

Healthcare is now rated the top domestic issue in some recent polls among Democrats, independents and voters overall. Among Republicans, it was surpassed only by immigration in June, according to the latest Kaiser survey. A Democratic pollster, Geoffrey Garin, says: "There are a bunch of issues that candidates can take a pass on. This is not one of them."

On the Republican side, few candidates have been better prepared to deal with the issue than former Governor Mitt Romney of Massachusetts, who helped push through that state's bipartisan health plan. But Republican primary voters are leery of new government requirements, and, arguably, of Massachusetts as a role model. Gov. Romney, on the campaign trail, talks generally about getting everybody inside the healthcare system, through market reforms, state by state to make private insurance cheaper and more available. But not, he says "with a government takeover."

Analysts say the Democrats are clearly drawing lessons from the healthcare battles from 1993 to 1994, when a similar public groundswell for change collapsed in a matter of months. The 1,342-page Clinton plan that year was bewilderingly bureaucratic and easy for opponents to characterize as something that would actually worsen the status quo for many insured Americans.

This year, the major Democratic proposals are arguably ambitious and costly, but do not attempt the wholesale reinvention of the system.

The major Democratic plans announced so far attempt to cover nearly everyone by shoring up the employer-based system, creating new public insurance options and establishing new health insurance purchasing pools that offer a variety of private and public plans to people who cannot get coverage through work. People who could not afford coverage would get subsidies. Given those supports, some Democrats back the idea of requiring every individual to obtain insurance. They call for financing their plans with revenues from the Bush tax cuts for the wealthiest Americans, which are set to expire in 2010.

Another hallmark of this year's plans, in both parties, is a reliance on better health information technology and disease management to hold down costs; not the more rigorous regulatory structures proposed in 1994, which critics asserted would soon lead to rationing.

By the time the general election rolls around, polls indicate that the issue will be front and center, setting the stage for another great battle to overhaul the system under the next president.