



## Surviving Disruption: Insights for Health System Boards

By Mark Grube, Managing Director and National Strategy Leader, Kaufman, Hall & Associates, LLC

The core of disruption is to dismantle traditional structures, practices, and business models. Under the classic disruptive scenario, innovators take a complex, high-priced service and offer it with more convenience at a lower price, attracting consumers and drawing volume and revenue away from traditional providers. In today's economy, the pace of disruption is accelerated by large, fast-moving companies that are using size, cheap capital, innovation, new technology, and an aggressive sense of competition to overtake whole sectors.

As a massive, \$3 trillion industry long plagued by high costs, complex structures, intense regulation, and a disparate patient population, healthcare is ripe for disruption. Now companies like Amazon and Apple are making inroads to the industry.

Apple is opening clinics that promise to offer the "world's best healthcare" for its employees.<sup>1</sup> The company has explored buying medical clinic chains,<sup>2</sup> and CEO Tim Cook has declared healthcare "a big area for Apple's future."<sup>3</sup>

Amazon, meanwhile, is licensed as a wholesale pharmacy in at least 12 states.<sup>4</sup> It has discussed possible acquisition of generic drug companies,<sup>5</sup> has a skunkworks project focused on

opportunities in healthcare,<sup>6</sup> and is partnering with Berkshire Hathaway and JPMorgan Chase to form an independent healthcare company to serve their employees.

### Key Board Takeaways

To be proactive in addressing industry disruption, health system boards should work with executive leaders to assess traditional board structures and operations, and identify any inefficiencies. Factors to consider include:

- Adding board members with experience in successfully navigating shifting business models; industry disruption requires an innovative approach and mindset.
- Optimizing board and committee meeting schedules to ensure that directors are kept apprised of disruptive issues impacting the organization, and equipped to take swift action when needed.
- Restructuring board policies and procedures to expedite decision making and to support the board's ability to respond effectively to disruptive forces.
- Reducing steps required prior to a final board vote to ensure the board's ability to take efficient action in response to disruptive forces.

Nationwide, board members across industries project that significant industry changes and business model disruptions will have the greatest effect on their companies in 2018.<sup>7</sup> To survive healthcare industry disruption, health system

<sup>1</sup> AC Wellness Web site: [www.acwellness.com](http://www.acwellness.com).

<sup>2</sup> "Apple Explored Buying Two Concierge Medical-Clinic Start-Ups as Part of a Bigger Push into Health Care," *Concierge Medicine Today*, October 18, 2017.

<sup>3</sup> Adam Lashinsky, "Tim Cook on How Apple Champions the Environment, Education, and Health Care," *Fortune*, September 11, 2017.

<sup>4</sup> Samantha Liss, "Amazon Gains Wholesale Pharmacy Licenses in Multiple States," *St. Louis Post-Dispatch*, October 27, 2017.

<sup>5</sup> Meg Tirrell and Christina Farr, "Amazon Is in Exploratory Talks with Generic-Drug Makers," *CNBC*, November 30, 2017.

<sup>6</sup> Eugene Kim and Christina Farr, "Amazon Has a Secret Health Tech Team Called 1492 Working on Medical Records, Virtual Doc Visits," *CNBC*, July 26, 2017.

<sup>7</sup> National Association of Corporate Directors, *2017–2018 NACD Public Company Governance Survey*.

directors and executives must ensure bold leadership with the ability to be proactive in identifying and responding to warning signs.

This article presents four steps for building bold leadership to survive industry disruption:

1. Establish a point of view about disruption.
2. Establish an appropriate level of board engagement.
3. Determine implications for board membership and processes.
4. Be alert to the potential for disruption.

### **Establish a Point of View about Disruption**

Developing the organization's point of view on disruption allows boards and senior management to shape their view of the future, its implications, and the organization's role within that future. From a global perspective, questions to be answered include:

- What will be the primary models and methods of care delivery?
- What capabilities and attributes will distinguish the most successful organizations?
- What is the likely direction of commercial and government payment?
- What is the likely role of acute care in the future health system?

Based on this global perspective, healthcare leaders can identify their organization's role within the future scenario, and articulate and implement a unique value proposition that draws upon organizational strengths. For example, leaders may opt to focus on access as a differentiating strategy, offering convenient digital, low-intensity clinic, urgent care, and other ambulatory care delivery alternatives throughout an organization's service area.

### **Establish an Appropriate Level of Board Engagement**

Boards will want to consider whether their current structure provides the flexibility and capabilities needed to address disruptive threats, and make changes as needed. For example, directors may want to reevaluate how often they meet, and the metrics used to monitor organizational performance. Effective boards meet frequently enough to maintain momentum and address pressing issues, but not so frequently as to waste

time. Leaders also should consider the potential benefits and drawbacks of creating a committee to focus on disruption, or vesting an existing strategic planning committee or the full board with that responsibility.

### **Determine Implications for Board Membership and Processes**

Building bold leadership to confront industry disruption requires an innovative approach and mindset. Health system directors and executives should contemplate building new capabilities into their leadership structure, such as adding board members with experience in successfully navigating shifting business models.

Healthcare leaders may need to restructure board policies and procedures to expedite decision making, and to support the board's ability to respond effectively to disruptive forces. For example, the board should ensure coordination of the organization's strategic planning and enterprise risk management efforts with the evolution of board-level oversight of business disruption.

Boards and management also will need to assess and improve the decision-making process, such as decreasing the steps involved, and streamlining how information is presented. In many instances, time will be of the essence in making strategic decisions to drive innovations and address disruptive competitors.

### **Be Alert to the Potential for Disruption**

Innovation can occur at a dizzying pace. Within 15 months, Uber's market share of ground transportation business grew from 14 to 47 percent.<sup>8</sup> Within nine months, Google successfully applied artificial intelligence to the complexities of language.<sup>9</sup>

But while disruption occurs quickly, it does not have to be unexpected. Health system directors and executives should work to continuously monitor and assess competitive trends locally, regionally, and nationally. They also can minimize

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<sup>8</sup> Scott Mayerwitz, "Uber Gain in Market Share Accelerates," Associated Press, April 8, 2015.

<sup>9</sup> Matt Burgess, "Google's AI Just Created Its Own Universal 'Language,'" *Wired*, November 23, 2016.

the threat of disruption by understanding the needs, expectations, and behaviors of different consumer segments within their markets.

Board leaders should work with executive leadership to identify the types of business disruption-related information that needs to be brought to the board's attention, including the frequency and format in which it should be presented.

## **Conclusion**

Healthcare disruption is inevitable and already occurring on multiple levels as new entrants capitalize on new technology and innovations in care delivery. Some of the traditional strengths of healthcare governance, such as thoroughness

and caution, may not be suited to rapidly emerging competitors and the need for major organizational change.

To lead their organizations amid disruption, health system boards must take a hard look at how they monitor the environment, set clear organizational goals, and structure themselves and their activities to be more nimble and decisive. Following the four steps cited here will ensure boards are set to continuously optimize how they function and serve as partners in propelling progress, rather than impediments to change. The nation's health systems do not have the luxury of time—their evolution must begin now—and boards and executive teams must be primed to lead the way.

*The Governance Institute thanks Mark E. Grube, Managing Director, Kaufman, Hall & Associates, LLC, and Governance Institute Advisor, for contributing this article. He can be reached at [mgrube@kaufmanhall.com](mailto:mgrube@kaufmanhall.com).*

