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Current Trends in Academic Health Systems: Four Things Boards Should Understand

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Academic health systems (AHSs) are complex, matrixed organizations with a variety of ownership, governance, and operating models. However, the common thread that links them together is the commitment to multiple missions: delivery of clinical care to the communities they serve, educating the next generation of providers, and delivering innovation and discovery to advance health and medicine. As the healthcare sector undergoes transformational change, AHSs are facing significant headwinds. A recent report by Moody's concluded that the unique, market-differentiating characteristics of AHSs give them inherent and fundamental credit quality, but these same characteristics put them at risk when competing in a value-based environment, where delivering on the Triple Aim (improving the health of populations, improving the patient experience, and reducing the per capita cost of healthcare) is paramount.[1]

As AHSs navigate these choppy waters, board members must be well versed in the complexities of the changing environment so that they can appropriately exercise their duty of care in assisting management in planning and decision making.

Key Board Takeaways

- With management, develop a "systemness" strategy. Assess current state and identify ideal state. Are there unnecessary silos or duplicative resources that can be centralized and streamlined across the system?
- Understand your organization's strategy for providing consumer-centric care. What are the leadership, engagement, operational, and capital requirements to execute?
- Understand where your organization benchmarks for cost and quality compared to your market competitors and not just other AHSs. What are the organization's quality and cost targets? Are they aggressive enough?
- Use board time to truly understand the details of mission support funds flow. Are the research, education, and clinical mission strategies aligned? Do the mission support funds drive organizational performance against clear metrics? What is the return on investment for mission support funding?

There are several important questions that board members should be seeking answers to:

1. What is our strategy for delivering system-based integrated care?
2. How is our organization maximizing differentiation while delivering consumer-centric care?
3. What is our strategy to improve cost and quality (value)?
4. Are our missions linked strategically and financially?

What Is Our Strategy for Delivering System-Based Integrated Care?

The future success of AHSs will be reliant upon system-based integrated care. There has been significant consolidation in the healthcare market resulting in the development of large integrated delivery networks. AHSs need to have a system-based strategy to deliver integrated care. This "systemness" can be accomplished through several mechanisms: acquisition to grow system-based scale, partnership with others across a broad geography, or merger into an existing integrated system. Scale for scale's sake has not shown the benefits that have been expected and rating agencies have begun to de-emphasize scale in their evaluation of credit risk.[2] True systemness pulls together assets (facilities, human capital, clinically integrated networks of providers, payers, etc.) in an integrated fashion

1 *Academic Medical Centers' Unique Strengths Create Challenges as Sector Shifts to Value*, Moody's Investors Service: Sector In-Depth, March 28, 2019.

2 Tara Bannow, "Not-for-Profit Hospital Industry May Have Peaked Financially, Fitch Rating Says," *Modern Healthcare*, November 15, 2018.

to deliver on the Triple Aim. AHS boards should be exploring their organization's current state and future strategies to deliver system-based integrated care.

How Is Our Organization Maximizing Differentiation While Delivering Consumer-Centric Care?

AHSs often deliver care that no other provider in the region can deliver. Solid organ and bone marrow transplantation, trauma care, novel oncology treatment, etc. are often the key clinical differentiators when compared with non-academic health systems. Perfecting the delivery of these acute episodes of care with the highest quality and efficiency will drive new referrals and brand strength. The reality is that only about 10–20 percent of the care provided in AHSs falls into this category. The other 80–90 percent of care provided in AHSs is the same care that can be provided by non-academic providers. As consumerism has taken hold in the delivery of healthcare, brand and reputation as surrogate measures of quality will not stand up to scrutiny. Delivering consumer-centric, convenient care with a high level of consumer satisfaction will drive consumer loyalty. AHSs must develop and execute strategies for providing convenient access to care (retail locations, micro-hospitals, etc.) and technology-enabled offerings (online appointments, virtual visits, digital front door, etc.) to compete with their non-academic counterparts.

What Is Our Strategy to Improve Cost and Quality (Value)?

Despite recent improvements in quality metrics, AHSs continue to lag their non-academic counterparts with respect to overall cost and quality.[3] This puts AHSs at significant risk from a payer and governmental penalty perspective and has resulted in some AHSs being marginalized by payers and clinically integrated networks. AHS boards must maintain a laser focus on both clinical quality and organizational cost structure. Attacking the customary cost structure opportunities (LOS reduction, revenue cycle and supply chain optimization, labor expense reduction, etc.) is essential and should be an ongoing process. In addition, much more difficult but equally important is reduction of clinical variability. Improvements here will be essential to continue to move the cost needle while improving quality.

Are Our Missions Linked Strategically and Financially?

Now more than ever, integrated strategic planning across the missions is essential for future success. Historically, strategic planning across the missions was done independently, in silos, with minimal integration across the strategic plans. Financial support was then provided from clinical funds to support the academic (research and education) missions (mission support funds flow). As the clinical delivery component of AHSs is becoming stressed (softening revenue, growing expenses, etc.) the need to demonstrate a return on investment (ROI) for the mission support funding is of growing importance. Financial support of the academic missions should be viewed as research and development investment, with the need for key performance indicators (KPIs) in all missions to demonstrate ROI. Previously, mission support models consisted of multiple negotiated agreements between the different components of the AHS (health system, university or college of medicine, faculty practice plan). These agreements were often negotiated independent of one another and were not strategically aligned across missions. AHS boards should closely look at their organizations mission-based strategic plans and mission support agreements to ensure that they are integrated, and that funding is appropriately linked to agreed-upon strategic priorities with clear metrics of successful performance.

Conclusion

These are challenging times for AHSs. Governing boards have the responsibility to understand the headwinds that their organizations are facing and the strategies that are in place to mitigate risks and drive organizational performance. This will help boards serve as trusted counsel to the management team in the execution of these strategies.

3 *Despite Improvements, Academic Medical Centers Trail Non-Academics on Cost and Quality Metrics*, Navigant, 2018.

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