

## Smart Governance: A Path to Stabilizing Healthcare

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Healthcare systems are facing unprecedented challenges due to shifting market dynamics, increasing healthcare costs, and rapid technological transformation. The current revenue model based upon sick care has seen cost increases exceeding what the market is willing to pay. In this volatile environment, healthcare organizations must adopt governance strategies that balance stability with adaptability. Smart governance offers a framework for health systems to remain resilient, promote sustainability, and drive innovation. This article examines the challenges confronting healthcare today, the industry's revenue transition, the role of digital technologies, and how governance can create a stable yet flexible foundation for future growth.

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### Current Hurdles

Chronic diseases continue to rise at alarming rates, creating significant challenges for healthcare systems. Conditions like heart disease, cancer, diabetes, and obesity have become more widespread, with nearly 60 percent of Americans now living with a chronic illness. This trend has placed enormous pressure on healthcare providers, as these illnesses require continuous and often complex care. The prevalence of obesity has increased significantly in recent years, further compounding the risks of related conditions like diabetes and cardiovascular disease.

Despite medical advancements, chronic disease prevalence shows no signs of slowing. The rising burden of these conditions strains hospitals, clinics, and long-term care facilities, underscoring the need for sustainable healthcare models that emphasize prevention and health management rather than reactive

care. Although this increased disease burden ironically creates business, the margins on this type of care are low or even negative. Also, many of the services these patients need are not reimbursed creating additional pressures.

The U.S. healthcare system is characterized by high costs and subpar outcomes compared to other developed countries. Despite spending more per capita on healthcare, the U.S. ranks poorly in life expectancy and overall health outcomes. A significant portion of healthcare resources is allocated toward acute care, particularly hospital services, which account for 30 percent of total healthcare spending. However, much of this spending addresses advanced stages of illness, with limited investment in preventive care or social determinants of health that influence long-term wellness. This care can be life-changing and lifesaving to those that receive it.

However, there are few resources allocated to the underlying factors that impact diseases for larger populations. The focus remains on "sick care" rather than proactive health management, resulting in costly hospitalizations and treatments that might have been preventable with early intervention. To address these inefficiencies, healthcare organizations should consider shifting their focus toward preventive care and population health strategies. To do this effectively requires a revenue model that pays differently.

### The Revenue Model Transition

For a decade, healthcare systems have begun transitioning from fee-for-service models to performance-based care. The traditional fee-for-service model rewards providers based on the volume of services delivered, which results in systems and processes focused on managing the problems rather than creating infrastructure to support patients with different systems and models that focus on disease management, care coordination, and behavior change.

Payment models such as bundled payments, shared savings programs, and accountable care organizations (ACOs) are slowly gaining traction. These models incentivize providers to focus on quality and efficiency, rewarding them for keeping patients healthy and minimizing unnecessary interventions. Additionally,

### KEY BOARD TAKEAWAYS

As healthcare systems navigate market turbulence, leaders must address several critical questions:

- How can organizations remain aligned with their mission and values in a changing environment?
- What aspects of the industry will remain stable and which will evolve?
- How can existing frameworks be adapted to manage unforeseen disruptions or "wildcards"?
- What governance strategies will ensure that organizations remain agile and responsive to new opportunities?

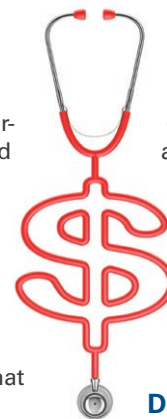
Answering these questions requires a forward-looking approach to governance. Healthcare organizations must develop frameworks that allow them to monitor progress, evaluate outcomes, and make adjustments in real time. Governance structures that prioritize clarity of purpose and continuous improvement will be best positioned to succeed in an unpredictable market.

the rise of Medicare Advantage plans reflects the broader trend toward healthcare arrangements that align reimbursement with outcomes rather than service volume. While there is recent news of health systems going out of network with

Medicare Advantage plans, that's by in large with specific plans that are problematic and is unlikely to impact the overall enrollment.

This shift, however, has been gradual, and fee-for-service remains a dominant model in many areas.

Healthcare organizations must carefully balance both models while building the infrastructure needed to support value-based care, such as care coordination systems, data analytics, and performance measurement tools.



### Digital Technologies, Strategic Partnerships, and Innovation Capabilities

The healthcare sector is undergoing digital transformation although relying on transaction engines has limited innovation and operational efficiencies. Technology is reshaping how care is delivered, from virtual health services to remote monitoring tools. Generative

AI is poised to play a transformative role in healthcare. AI-powered solutions are already being used to streamline administrative tasks like medical coding, note-taking, and revenue cycle management. In clinical settings, AI holds promise in diagnostics, personalized medicine, and predictive analytics. However, leveraging these technologies requires robust governance frameworks to address data privacy, security, and ethical concerns.

To manage financial pressures, healthcare organizations are exploring new revenue diversification strategies. Relying solely on traditional hospital-based services is no longer sustainable, especially as healthcare shifts toward outpatient care and virtual health solutions. Many providers are pursuing mergers, acquisitions, and partnerships with non-healthcare organizations, such as venture capital firms and technology companies, to expand their service offerings and generate new income streams.

In addition to strategic partnerships, healthcare organizations are building innovation capabilities and exploring new business models, such as the commercialization of shared services. These efforts reflect the growing need for agility and resilience as providers navigate an uncertain economic landscape. Organizations that successfully diversify their revenue sources will be better positioned to weather market turbulence and invest in future growth.

### Smart Governance Strategies

Smart governance is essential for healthcare organizations to thrive in an ever-changing environment. Governance frameworks must combine stable core elements—such as mission, values, and leadership principles—with dynamic components that can be adjusted as circumstances evolve. This approach ensures



that organizations remain true to their purpose while staying responsive to new challenges and opportunities.

Effective governance also requires clear criteria for selecting leadership and board members, as well as transparent charter statements that define the organization's goals and principles. Regular review and updates of governance policies are critical to maintaining alignment with market conditions and industry trends.

In an era of rapid change, governance plays a critical role in helping healthcare organizations achieve stability while remaining flexible enough to embrace innovation. Smart governance frameworks enable organizations to align their operations with emerging trends, integrate new technologies, and transition toward performance-based care. By fostering diverse leadership, encouraging collaboration, and promoting continuous

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learning, healthcare providers can build resilient systems that deliver high-quality care while managing financial and operational risks.

Ultimately, smart governance is a strategic tool that empowers healthcare organizations to navigate uncertainty, capitalize on new opportunities, and create a more sustainable and effective healthcare system. As the industry continues to evolve, organizations that adopt adaptable governance practices will be best positioned to meet the challenges of the future and improve the health outcomes of the communities they serve by balancing the right mix of acute services with other models.

*TGI thanks Brian Silverstein, M.D., Chief Population Health Officer, Innovaccer, and Governance Institute Advisor, for contributing this article. He can be reached at [brian.silverstein@innovaccer.com](mailto:brian.silverstein@innovaccer.com).*

