

Healthcare Industry Perspective: Building Resiliency in Uncertain Times

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According to the report on 'Building Resiliency in Uncertain Times' published by the EY Center of Board Matters,

Navigating Uniquely Challenging Economic Conditions

The Top priority in 2023

This is the top priority for 2023, due to a host of economic and global events which have made some firms adopt conservative investment decisions. Healthcare boards should support management in investing in opportunities with the following in mind:

Keeping an Eye on Inflation

Healthcare boards can guide management as it deals with how to adapt to inflationary pressures by asking about measures to protect financial performance. This includes cash flow and margins in real terms (e.g., cost cutting and revenue generation), and balance sheet management (e.g., payment cycle management and debt). Boards should encourage management to build flexible pricing and supply strategies with greater dexterity than previous years. They should also be asking about new strategies adopted for budgeting, planning and capital expenditure. For example, are management assumptions rebased quarterly or semi-annually to stay on top of real versus nominal cost



Paying Attention to Labor

The labor market remains very tight and expensive for the healthcare sector. As such, boards should be asking about management's efforts to better manage high labor costs. There should be greater attention and focus on employee retention and increased training. Boards should also ask management about strategies that directly enhance productivity and efficiency gains such as investment in new processes and technologies.

Deeper Focus on Cost of Capital

Higher interest rates have increased the cost of capital. Yet healthcare facilities need to continue making investments in data/technology, cybersecurity, hospital facility optimisation, talent up-skill, innovation, and growth. Given this, boards should challenge hospital management to rethink business models to balance their service offerings and engage in discussions to prioritise how best to deploy resources. A top area for healthcare is the need to keep funding digital transformation investments that achieve cost efficiencies. Investments in workplace solutions (e.g., automation and up-skilling) are just as important as other major capital expenditures. As such, the board should be looking at CFOs and how closely they work with the rest of the C-suite to prioritise these investments.

Focusing on Supply Chain

The pandemic exposed the hidden stresses in supply chain and staffing in healthcare facilities. Boards should engage management toward better oversight of hospital supply chain risk and redundancy. Boards could ask management how they plan to explore better use of technology and robust vendor management strategies, while asking for a better line of sight into supply chain strategy on a going forward basis.

Watching Energy Transition

Facility-based entities are especially vulnerable because they face the twin headwinds of high clinical and facility costs. Boards could be part of this by pressure-testing transition plans and projected impact to financial performance, growth, and strategy. The board could ask management to explore alternative energy sources like solar power with respect to achieving energy sustainability that can be a competitive advantage in the future.

Rethinking Capital Strategy

The Second priority in 2023

The second priority is important for healthcare entities because of the need to continue transforming their organisations to stay ahead of disruption and build long-term value and resilience. This is especially pertinent in strategic areas such as digital technology and M&A.

Advances in technology means healthcare entities must find ways of staying competitive with the goal of creating long-term value and stronger connections with patients and employees. Boards can help guide management as it navigates this era of data centricity which continues to be supercharged by emerging technologies. There is a constant need for investment in advanced data analytic infrastructures to unlock the value embedded in operational, patient and market data. The prize is the critical information and insights gained at the end of leveraging such advanced analytical capabilities. This is crucial to optimising key variables such as the quality of care, management of resources devoted to care, cost, and patient experience of care. The ability to effectively deliver sublime results in all these areas has far reaching consequences for healthcare.

M&A transactions offer healthcare entities the opportunity to keep enhancing the resilience of existing portfolios. Boards can play an active role here by stress-testing the management's assumptions behind the investment decisions. The higher cost of capital environment raises the need for greater scrutiny of investment objectives especially when debt funding is involved. Boards should be actively engaged and aware of these dynamics with an eye on the assumptions made relating to growth drivers, vision and long-term value creation and societal implications.

Enabling Innovation and Technology Transformation

The Third priority in 2023

The third priority is important as healthcare entities must keep leveraging modern technologies to boost transformational changes. Companies need to constantly review legacy business models that are vulnerable to competitors or stifle growth and efficiency while looking to adopt new capabilities that anticipate and allow for proactive measures given market/industry shifts.

Therefore, boards could engage management to switch up their strategies to include innovation and transformation efforts especially when it relates to patient care. Extensive and continuous use of tele-health, virtual care, and remote patient monitoring (RPM) platforms needs to occur at a greater scale especially where they enable better and more efficient ways of monitoring patients optimize patient volume management, and relief from intense workflow pressures.

Boards could engage management to further integrate innovation and digital technology into future treatment facilities to coalesce around the patient experience. For example, boards can help stress-test the future design of hospitals with digital architecture that provides a seamless experience for each patient. Hospital emergency rooms could also do with digital enhancements that benefit both patients and clinicians. For example, boards could ask about a hospital's digital identity strategy for clinicians as replacement for multiple logins and authentication steps. This helps to improve patient care and balance efficiency with security in the long term.

Healthcare entities will not be immune to the next iteration of the internet (i.e., the metaverse) and boards should be actively questioning management on this. They should seek greater awareness of plans to embrace a more immersive web experience and general efforts to facilitate deeper engagements that provide new ways to interact with patients. As the center of care moves further away from inpatient towards ambulatory, RPMs, virtual and home care, these trends will become more need-to-have than a nice-to-have. Boards can play a strategic role in helping the management in devising best trends with respect to employee care optimisation, enhancing patient experience, communication, and overall conduct of daily clinical activities.

Boards should be aware that discussions around innovation, technology and transformation would not be complete without focusing on the vast potential of artificial intelligence (AI) to help create robust automation systems that raises the standard, delivery, and management of care. For example, AI can upgrade efficiencies around automated care continuums, help spot inefficiencies in supply chain practices, help discover gaps in coordination of care between diverse care teams, and can be

deployed as a risk management tool in a health plan's high-cost predictive analytic model. It can also be a useful tool for fighting fraud and defending against cyber-attacks.

Championing a Future-focused Talent Agenda

The Fourth priority in 2023

Employees continue to reassess and re-prioritise what they value most from employers and healthcare is no exception. Previous strategies utilised to attract/retain workers will therefore need re-evaluating. Boards at healthcare entities should engage CHROs for better line of sight into the strategies around total compensation, skill gaps, and talent retention. Greater attention to talent is also warranted given the aging population of most industrialised countries. This demographic trend will result in greater demand for medical talent in general.

The board could engage management in deeper thinking of the company's brand image with regards to authenticity, targeting, and overall fit with values and future goals. This is because the younger population evaluates brands differently than previous generations which can influence which company they want to work for. Social media now plays a heavy role as a source of news and inspiration on topics and values, especially when led by an influencer. The result can be a quick dissemination of an alternatively informed view of a healthcare entity's brand image that may not be congruent with actual practices or goals.

Therefore, talent management becomes increasingly tied together with clinical care and the evolving trend towards remote/virtual care, and in-person care. As such, boards need closer attention to compensation committee structures and tasks with respect to broader human capital management oversight including talent (recruitment, development, and retention), compensation, benefits, etc. Otherwise, the company may struggle to attract and retain future talent.

Overseeing Cybersecurity and Data Privacy

The Fifth priority in 2023

This was the fifth priority which is no surprise given that cyber risk levels continue to grow and multiply. The expansion of digital transformation, flexible working, and the adoption of disruptive technology only serves to elevate this risk. These trends also increase the potential for greater vulnerability of a personal health data breach. Boards could urge management to use this as a strategic opportunity to position the company as a trusted business partner by supporting discussions that instill cybersecurity not just with CTOs, CIOs and CISOs, but as part of the DNA of the entire organisation. The goal is to embed cybersecurity via a "trust by design" philosophy with regard to new technology, transformational care practices, and operational arrangements.

The fact that cyber risk has become more weaponised from a

global and geopolitical perspective should raise further concern for the board to elevate this risk. For example, it can ask management to consider treating it not just as part of enterprise risk but consider it as a potential disaster situation and plan accordingly.

When it comes to cybersecurity and data privacy, boards also need to take a longitudinal and historical view due to the steady levels of M&A activity in healthcare. The result is combinations of several technology systems (both legacy and new) which are time-consuming and costly to integrate at the best of times. This often results in what is known as technical debt or the lack of upkeep of older legacy systems. Boards should be aware of this to ensure proper adjudication of the monetary value of cyber risk and mitigating measures such as cyber insurance.

Summary

Board members that engage with the executive team on these priorities will better prepare their companies for the near future.

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Note: The EY Center of Board Matters published a report on building resiliency in uncertain times and highlighted 5 board priorities for 2023. The Author shared his vision on these priorities from a healthcare industry perspective and published a short series of articles on his Signitt. The above article is a select summary of those comments. To read more at his Signitt Page, scan the code:

