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Audit Committee Institute

On the 2020 Healthcare agenda

Prioritising a heavy healthcare board agenda is never easy, and 2020 will be particularly challenging. The board is operating against a backdrop of changing demand, changing demographics, digitization and disruption, as well as changing revenue models. Healthcare is once again on the political agenda for the 2020 election cycle.

Drawing on insights from our work and interactions with directors and business leaders, we highlight six items for boards to consider as they focus their 2020 agendas on the critical challenges at-hand and on the road ahead:

– Link boardroom discussions on strategy, risk, and disruption

– Build the talent in the boardroom to meet the organisation's strategy and future needs

– Help set the tone and closely monitor the culture throughout the organisation

– Approach data governance holistically

– Make CEO succession and talent development a priority

– Have a crisis response plan in place and practice it

Link boardroom discussions on strategy, risk, and disruption.

Trade wars, Brexit, growing nationalism, cyberattacks on critical infrastructure, and the threat of military conflict in geopolitical hotspots—combined with an absence of global leadership and the deterioration of international governance—will continue to drive global volatility and uncertainty. As Eurasia Group's founder and president has noted, this environment "will require more investment in scenario planning and stress testing. It also means drawing up contingency plans to shorten supply chains, cutting long-term fixed costs, and limiting business exposure to political relationships that have considerable potential to go south."

Healthcare organisations also need to address the potential disruption to business models posed by accelerating advances in digital technologies such as robotic process automation, machine learning, artificial intelligence (AI), and blockchain. Are the organisation's risk management processes adequate to address the speed and disruptive impact of these advances, and to assess the continuing validity of the key assumptions that are the basis for the organisation's strategy and business model? Tomorrow's competitors are likely to be different than yesterdays.

In healthcare, there is also a need for close board oversight of both organic growth initiatives—involving patient experience initiatives and the organisation's strategic investments in digital health and other non-traditional healthcare models—as well as inorganic growth initiatives through joint ventures, partnerships and mergers and acquisitions. Who in management owns the myriad initiatives around enhancing the patient experience? Is the business development function up to the challenge of optimizing mergers, acquisitions, joint ventures and partnerships?

Creating and sustaining long-term value through joint ventures, partnerships, and M&A is a particular challenge for most organisations, and requires careful due diligence, structuring, and post-transaction integration planning and monitoring. If parties to the transaction include both taxable and non-taxable entities, there are myriad complex tax issues to consider—and tax advisors need to be involved early in planning for the transaction.

Help management reassess the organisation's processes for identifying the risks and opportunities posed by disruption—geopolitical, technological/digital, social, and environmental—and their impact on the organisation's long-term strategy. Is there an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary? Help the organisation test its strategic assumptions and keep sight of how the big picture is changing: connecting dots, thinking differently, and staying agile and alert to what's happening across the healthcare ecosystem. In short, disruption, strategy, and risk should be hardwired together in ongoing boardroom discussions.

Build the talent in the boardroom to meet the organisation's strategy and future needs.

Given the demands of today's business and risk environment, boards are increasingly focused on aligning board composition with the organisation's strategy, both today and longer term. Talent and diversity in the boardroom are also front and center for stakeholders. That said, it's clear that the world is changing markedly faster than boards.

The increased level of engagement on this topic highlights frustration over the slow pace of change in boardrooms, and points to the central challenge with board composition: a changing business and risk landscape. Addressing competitive threats and business model disruption, technology innovations and digital changes, cyber risk, and global volatility requires a proactive approach to board-building and board diversity—of skills, experience, gender, and race/ethnicity.

It's clear that board composition and diversity should be a key area of board focus in 2020, as a topic for communications with the organisation's stakeholders and positioning the board strategically for the future. Although the above data highlights examples for public companies, these also apply to healthcare organisations.

Help set the tone and closely monitor the culture throughout the organisation.

Does the organisation make it safe for people to do the right thing? Headlines of sexual harassment, surprise billings, aggressive collection practices, and other wrongdoing continue to put corporate culture front and center for healthcare organisations, its employees and patients. Boards themselves are also making headlines—particularly in cases of self-inflicted corporate crises—with stakeholders, bondholders and regulators asking, "Where was the board?"

Given the critical role that corporate culture plays in driving an organisation's performance and reputation—for better or, as evidenced by #MeToo, for worse—we see boards taking a more proactive approach to understanding, shaping, and assessing corporate culture. Have a laser focus on the tone set by senior management and zero tolerance for conduct that is inconsistent with the organisation's values and ethical standards, including any "code of silence" around such conduct. Be sensitive to early warning signs and verify that the organisation has robust whistle-blower and other reporting mechanisms in place and that employees are not afraid to use them.

Understand the organisations actual culture (the unwritten rules versus those posted on the breakroom wall); use all the tools available—surveys, internal audit, hotlines, social media, walking the halls, and visiting facilities—to monitor the culture and see it in action. Recognize that the tone at the top is easier to gauge than the mood in the middle and the buzz at the bottom. How does the board gain visibility into the middle and bottom levels of the organisation? Make sure that incentive structures align with strategy and encourage the right behaviours, and take a hard look at the board's own culture for signs of groupthink or discussions that lack independence or contrarian voices. Focus not only on results, but the behaviours driving results.

Approach data governance holistically.

In our conversations with directors, it's clear that many healthcare organisations need a more rigorous, holistic approach to data governance—the processes and protocols in place around the integrity, protection, availability, and use of data.

Data governance overlaps with cybersecurity, but it's broader. For example, data governance includes compliance with healthcare-specific privacy laws and regulations, as well as new privacy laws and regulations that govern how personal data—from customers, employees or vendors—is processed, stored, collected, and used. Data governance also includes the organisation's policies and protocols regarding data ethics—in particular, managing the tension between how the organisation may use customer data in a legally permissible way with patient expectations as to how data will be used. Managing this tension poses significant reputation and trust risks for healthcare organisations and represents a critical challenge for leadership.

To help develop a more rigorous approach to oversight of data governance:

– Insist on a robust data governance framework that makes clear how and what data is being collected, stored, managed, and used, and who makes decisions regarding these issues.

– Clarify which business leaders are responsible for data governance across the enterprise—including the roles of the chief information officer, chief information security officer, chief privacy officer, and chief compliance officer.

– Reassess how the board and audit committee assign and coordinate oversight responsibility for both the organisation's cybersecurity and data governance frameworks, including privacy, ethics, and hygiene.

Make CEO succession and talent development a priority.

Few board responsibilities are more important than hiring and firing the CEO—a reality that continues to hit the headlines, particularly if the board is caught flat-footed. Given the complex and disruptive business and risk environment, it is essential that the organisation have the right CEO in place to drive strategy, navigate risk, and create long-term value for the enterprise. The board should ensure that the organisation is prepared for a CEO change—planned and unplanned. CEO succession

planning is a dynamic and ongoing process, and boards must always be thinking about developing potential candidates and planning for succession should start the day a new CEO is named. How robust are the board's succession planning processes and activities? Are succession plans in place for other key executives?

Clearly linked to the importance of having the right CEO is having the talent required—from the top of the organisation down through the ranks—to execute the organisation's strategy and keep it on track. Stakeholders are becoming more vocal about the importance of human capital and talent development programs and their link to strategy. We expect organisations will face an increasingly difficult challenge in finding, developing, and retaining talent that is required at all levels of the organisation. Does management's talent plan align with its strategy and forecast for short and long term needs? Which talent categories are in short supply and how will the organisation successfully compete for this talent? More broadly, as millennials and younger employees join the workforce in large numbers and talent pools become globally diverse, is the organisation positioned to attract, develop, and retain top talent at all levels? Many compensation committees are focusing on talent development and retention.

Have a crisis response plan in place and practice it.

It's a sobering data point: Between 2010 and 2017, headlines with the word "crisis" and the name of one of the top 100 companies as listed by Forbes appeared 80 percent more often than in the previous decade.[2] Even the best-prepared companies will experience a crisis, and companies that respond quickly and effectively tend to weather crises better. Crisis readiness goes hand-in-hand with good risk management—identifying and anticipating risks and putting in place a system of controls to help prevent crises or mitigate their impact. We're clearly seeing an increased board focus on cultural risks as well as key operational risks across the extended organisation—e.g., supply chain and outsourcing risks, information technology and data security risks, etc. Does the board understand the organisation's critical operational risks? What's changed in the operating environment? Has the organisation experienced any control failures? Is management sensitive to early warning signs regarding safety, clinical quality, and compliance?

2 McKinsey Quarterly, "Are you prepared for a corporate crisis?" April 2017.

Help ensure that management is weighing a broad spectrum of what-if scenarios—from supply chains and the financial health of vendors to geopolitical risks, natural disasters, terrorist acts, and cyber threats—and healthcare organisations are particularly vulnerable to numerous cyber incidents. Is the organisation's crisis response plan robust and ready to go? Does it cover different scenarios? Is the plan actively tested or war-gamed and updated as needed? Does it take into account the loss of critical infrastructure—e.g., telecommunications networks, financial systems, transportation, and energy supplies? Does it include communications protocols to keep the board apprised of events and the organisation's response—and to address the organisation's stakeholders?

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