FYA For Your Advantage

An Essential Tool for Healthcare Leaders

Sponsored by PHNS Innovative Solutions to Complex Problems

Volume 9, Issue 10 – May 17, 2010

From TrendLeader Connections

FYA* - For Your Advantage**, is a free twice-monthly electronic newsletter. With every issue, ***FYA provides insights into the topics that concern healthcare leaders today and the challenges they will face in the near future. The newsletter is provided free to healthcare CEOs. The editorial content is not copyrighted – except for those columns copyrighted by the author. CEOs may use the non-copyrighted material in any way they wish. The newsletter can be printed without prior permission.

***FYA* - For Your Advantage** is produced by **TrendLeader Connections**. TLC offers a variety of healthcare products and services that help executives to differentiate between "fads" and "trends" and to make connections with "Trend Leaders" within the healthcare industry.

Table of Contents

***FYA* Staff**

Publisher	Jerry F. Pogue
Editor	S. Harvey Price
Web Master	Joel Schlarb
Circulation Manager	Sheila Keizer

TrendLeader Connections
26 Shawnee Way, Suite C
Bozeman, MT 59715
(406) 586-6400

Secret to 21st Century Healthcare Success: Doing What Others Won't

By Dr. John Kenagy

Everyone who has worked in a large, complex organization has run up against unmanageable *elephants in the room* – unresolved issues, major inconsistencies or big problems that no one feels comfortable acknowledging – let alone trying to solve.

I have been a physician, healthcare executive and advisor, academic scholar, author and, perhaps most importantly, a patient once deeply immersed in healthcare with a critical injury. In each of those roles, I have seen a few people become uncommonly successful by doing what others won't – acknowledging and then managing those elephants.

As a Visiting Scholar at Harvard Business School, I studied the few companies that innovated successfully when others failed to adapt. One of the most consistent indicators of success is the ability to turn unacknowledged problems into real opportunities.

For example, Intel saw its profit fall from $198 million in 1984 to $2 million in 1985, but then regained dominance. How? CEO Andy Grove famously identified Intel's elephant and turned it into an opportunity. Grove recognized that he had successfully developed, led and grown a great computer memory company whose business model was no longer relevant in the marketplace. Rather than ignore this elephant and stay alive by downsizing and cost cutting, he identified it as an opportunity, marshaled his organization's forces and adapted Intel's business model to a profitable focus on microprocessors.

Meanwhile, Digital Equipment Company (DEC), another great technology company, saw its profits fall dramatically at exactly the same time, but failed to eliminate the elephant in the room. A Microsoft executive, who was formerly part of DEC's senior management team, told me this story: "I saw it happen. We formed consensus around the management table on key strategic initiatives over and over again while many around the table were thinking, 'Here we go again, this is not going to work.'" No one could acknowledge, let alone manage, the fact that DEC's previously successful business model was the problem. That's the elephant that killed DEC.

I believe many 21st Century healthcare organizations face a few big elephants that no one wants to talk about. The history of innovation makes it clear that those who manage these unacknowledged problems will be uncommonly successful.

First, you have to identify them. And that's not easy. Here are two elephants that I see everywhere. What do you think?

Elephant #1 is "buying solutions." Most healthcare organizations have invested heavily in information technology, medical technology and facilities over the last 10 years, but have only modest financial and performance returns, if that, to show for it. Many facilities have been forced to downsize and cost-cut rigorously to maintain profitability. And yet, practically every hospital I talk to is thinking about spending more on "infrastructure."

It's not the 1990's anymore. Buying solutions is a very big elephant because there is no money left. Most hospitals cannot make a profit on current Medicare rates. But Medicare is essentially bankrupt and those already non-profitable reimbursements are sure to decrease. Now health plans demand rate increases that no one can afford. There is no question that private insurance rates will fall toward Medicare. And Medicare rates are not the floor, because they are sure to go lower.

What's the answer? Do what others won't. Don't spend more. Excel at building equity from current assets. Regenerate capital rather than access and spend capital. The history of innovation is clear that a small number of organizations will change their focus from "buy" to "make" and do what others won't. The path is there, but most won't see it because they have another very big elephant standing in the way.

(Continued...)

FYA For Your Advantage
An Essential Tool for Healthcare Leaders
Sponsored by PHNS Innovative Solutions to Complex Problems

Secret to 21st Century Healthcare Success: Doing What Others Won't (Continued)

Elephant #2 is our penchant for trying harder at what we know and understand. I spoke at the World Health Care Congress in Washington, DC, last month and I spent some time listening to the "answers" proffered to solve our healthcare problems. Here's a summary:

Copy best practices! Some big integrated systems and other smart people have the answers. So first gather and analyze the data, then assemble experts in meeting rooms to design and implement solutions and technology that align incentives, simplify administration, make hospitals and doctors more efficient and safe, reduce hospitalizations and readmissions, manage chronic illnesses more effectively and improve healthcare information technology. Just copy those best practices.

But the history of innovation makes it clear there is *no competitive advantage in implementing best practices or buying technologies* that are available in the market to whomever can buy them. Copying best practice is like driving a car by looking through the rearview mirror. You cannot spot a new path by looking at the past, particularly someone else's.

Just like Digital Equipment, we are not going to transform healthcare by trying harder with 1990's ideas and methods. Trying harder will deliver exactly what it has already delivered – less care at more cost. As Yogi Berra said, "It's déjà vu all over again."

My Harvard Business School research and experience focused on understanding the why and how of doing what others won't. The result is a new DNA for healthcare – Adaptive Design. Validated in the complex realities of patient care, Adaptive Design is an integrated management/frontline approach to getting patients exactly what they need at continually lower cost.

Adaptive Design creates the opportunity for you to do what others won't. It's not rocket science; just different. The pathway is clear and the methods, skills and tools necessary are detailed in my new book, *Designed to Adapt: Leading Healthcare in Challenging Times*.

Most organizations are perfectly designed to not adapt. Why? They focus on buying innovation and copying best practices. That works great until you want to do something new. You don't buy innovation; you make it.

Here's how:

1. Acknowledge the elephants – buying your future and repeating best practices are not bad, in and of themselves; they're just not innovative. Acknowledging the elephants lets you see the path to doing what others won't. Remember Andy Grove and Intel.
2. Don't make a big, radical change. Maintaining a low cost structure is the secret to success in 21st Century healthcare. You don't want to make a big bet. Intel developed its semiconductor business out of a $60,000 special order from a Japanese calculator company. Bill Gates bought DOS for $50,000 from the Seattle Computer Company.
3. Innovate inside. You do want to make a radical change in a small place to create an *innovation incubator* to carry you forward. My book describes in detail the concept of a Learning Line, an operational framework focused on building trust, optimism, high performance and innovation focused on the patient.
4. Don't design and implement; rather problem solve what patients need and cannot get. Focus on getting patients exactly what they need at continually lower cost. Then problem solve the system when that does not happen.
5. Grow opportunistically by relentlessly challenging the status quo. You will make a difference on the Learning Line; I can guarantee it. But the temptation is to "roll it out," without challenging the status quo. Great adaptive innovators do not let the old dictate the path of the new. Instead they make the new from the old.

What's the result? – Competitive advantage in 21st Century healthcare by providing more and better care at continually lower cost. Professor Clayton Christensen, the Harvard Business School professor who developed the concept of disruptive innovation, said in the forward he wrote for my book, "Together, these two pathways of innovation (disruptive innovation and Adaptive Design) have the potential, in my opinion, of greatly improving the quality of health care while reducing its cost by 50 percent or more. I am not overstating this potential." Decrease the cost of healthcare by 50 percent or more and make Medicare a very profitable opportunity for your healthcare organization.

Doing what others won't is not complex; it's just different. The problem is that every organization has a few big elephants standing in the way. Managing elephants is easier than you think if you acknowledge their presence. I have designed a simple, one-day learning experience for senior management teams that will bring your elephants into focus immediately, identify the path and give you simple next steps if you decide to move forward. Contact info@johnkenagy.com for the details.

Once you acknowledge the elephants, it is easy to decide what to do. And that takes you down the path of doing what others won't. In 21st Century healthcare, that's the place to be.

Dr. John Kenagy is a former Visiting Scholar at Harvard Business School and the author of the Designed to Adapt: Leading Healthcare in Challenging Times. Order his book from his website www.johnkenagy.com and at www.SecondRiverHealthcare.com or contact him for more information at info@johnkenagy.com.

FYA For Your Advantage
An Essential Tool for Healthcare Leaders
Sponsored by PHNS Innovative Solutions to Complex Problems

HIPAA Security Risk Analysis – Done Yet?

By Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

Has your hospital done a comprehensive HIPAA security risk analysis as required by the HIPAA Security Rule (45 C.F.R. §§164.302-318)? If not, it's time to pay attention to this HIPAA requirement. Recent HIPAA amendments have significantly strengthened enforcement of HIPAA privacy and security rules, and have increased the tiers of potential civil monetary penalties for HIPAA violations.

The HIPAA Security Rule contains a Security Management Process standard that requires covered entities to "[i]mplement policies and procedures to prevent, detect, contain and correct security violations."

Conducting a risk analysis is one of four required implementation specifications:

> "RISK ANALYSIS (Required).
>
> Conduct an accurate and thorough assessment of the potential risks and vulnerabilities to the confidentiality, integrity, and availability of electronic protected health information held by the [organization]" (45 C.F.R. §§164.308(a)(1)(ii)(A))"

In addition to specifically requiring covered entities to conduct a risk analysis, the Security Rule indicates that a risk analysis is a necessary tool in order to achieve substantial compliance with many other HIPAA standards and implementation specifications.

The Office for Civil Rights ("OCR"), which is responsible for enforcement of HIPAA, is also responsible for issuing annual guidance on the HIPAA Security Rule and recently released a helpful guide called "HIPAA Security Standards: Guidance on Risk Analysis" that can assist your hospital in going through the risk assessment requirement. The guide is especially useful since it provides for flexibility in designing a risk assessment based on your hospital's unique characteristics:

> "The guide is not intended to provide a one-size-fits-all blueprint for compliance with the risk analysis requirement. Rather it clarifies the expectations of the Department for organizations working to meet these requirements. An organization should determine the most appropriate way to achieve compliance, taking into account the characteristics of the organization and its environment."

The risk analysis is the first step in a process to evaluate a covered entity's risks and vulnerabilities with respect to its electronic protected health information ("e-PHI"). The OCR guide gives the following examples of sample questions that a covered entity "may wish to consider in implementing the Security Rule:"

- "Have you identified the e-PHI within your organization? This includes e-PHI that you create, receive, maintain or transmit.
- What are the external sources of e-PHI? For example, do vendors or consultants create, receive, maintain or transmit e-PHI?
- What are the human, natural, and environment threats to information systems that contain e-PHI?"

The OCR guide also provides helpful definitions of "vulnerability," "threat" and "risk," which are key terms that are not defined in the Security Rule. Interestingly, "threat" is defined more broadly than anticipated to include not only human threats, but also natural threats (such as floods, earthquakes, tornadoes and landslides) and environmental threats (such as power failures, pollution, chemicals and liquid leakage).

In addition, the OCR guide provides the following list of "elements a risk analysis must incorporate, regardless of the method employed:"

- Scope of the Analysis
- Data Collection
- Identify and Document Potential Threats and Vulnerabilities
- Assess Current Security Measures
- Determine the Likelihood of Threat Occurrence
- Determine the Potential Impact of Threat Occurrence
- Determine the Level of Risk
- Finalize Documentation
- Periodic Review and Updates to the Risk Assessment

If you haven't done your HIPAA risk analysis, it's time to get started. If you have, it might be worthwhile to check it against the OCR's new guide to ensure that you'll measure up if the OCR comes knocking at your door.

I would like to hear your comments. Send them to:
Richard.Kneipper@phns.com

Cleveland Clinic CEO Weighs In on Issues

If you missed the *Fortune* interview with Cleveland Clinic CEO Delos M. Cosgrove, MD., here are highlights. Dr. Cosgrove addresses some of the most sensitive issues in healthcare today.

On the high cost of healthcare:

"There's a dirty little secret, and I might as well tell you to start with. The secret is that regardless of what happens with healthcare reform legislation, the costs are going to go up. We have more elderly people, and we can do more for them. So regardless of what happens, we can really only try to contain the rate of inflation. The cost is going to go up over time."

Will the costs stop rising:

"The total bill for healthcare for the country is going to continue to go up. Individual costs may come down in terms of what people pay for insurance, but they're going to pay for it in a different way – in taxes, one way or another."

Why in any other industry, if revenues are rising fast, we think it's growth, and it's exciting. There's only one industry where we say it's a terrible national problem, and that's medical care:

"We're only looking at one side of the equation. Look at the other side – suffering has gone down, diseases have gone down. Deaths from heart disease in the past 15 years have gone down 30 percent. That's tremendous progress. Healthcare is the second leading employer in the U. S., after restaurants and the food industry. It does a tremendous amount of research. It makes products. It exports. So it is an economic stimulus at the same time it's a cost."

In healthcare reform, one concern for hospitals and doctors is that Medicare and Medicaid will reduce what they pay. If that happens, will hospitals and doctors be more reluctant to treat Medicare and Medicaid patients?

"That remains to be seen. Right now hospitals lose about five percent on treating Medicare patients and about 14 percent on Medicaid patients. If we push more people into the Medicare and Medicaid categories and decrease the amounts that private insurers pay, that's going to be a problem for hospitals. I tell people at our hospital that we have to figure out how to treat people more efficiently with higher quality. At the end of the day, quality always brings down cost."

The Cleveland Clinic is not-for-profit. Is that model the future for big healthcare institutions?

"There are a lot of very successful for-profit hospitals. I think what we're going to see is a roll-up of hospitals. I don't think it's reasonable anymore to think that each hospital can be independent – have its own financial support, its own purchasing, its own back office. You need efficiency. You cannot expect every hospital to do great surgery or to put probes in people's brains for Parkinson's disease with pacemakers attached to them. It's too high tech. We're trying to build the healthcare delivery system for the 21st century so that there'll be family health centers where you get your flu shots and your checkup and your mammograms. At our community hospitals the babies are delivered and the gall bladders taken out and the hernias fixed and the pneumonias taken care of. And then you have a very high-tech hospital that looks after the really tough stuff."

You can read the entire interview in the March 1, 2010, issue of Fortune.

About PHNS Innovative Solutions to Complex Problems

PHNS provides IT services for hospitals, other healthcare providers and businesses. PHNS' IT services include application hosting, co-location and managed services; electronic off-site data back-up and data vaulting; business continuity solutions; disaster recovery services; and systems integration services. PHNS also provides comprehensive business process solutions for hospitals including admitting, HIM (including medical record management and storage, transcription, coding, release of information and electronic medical record services) and revenue cycle services. PHNS creates business-healthy hospitals by improving operations, enhancing technology and increasing cash on hand, which allows hospitals to focus on their core competency – patient care. PHNS has approximately 1,670 customers, including approximately 400 hospital IT and business process customers and approximately 1,270 IT customers. PHNS is headquartered in Dallas, Texas. See www.phns.com for additional information about PHNS.