Managing risk in a transforming healthcare organization

How to stay competitive in a converging healthcare system

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Managing the risk of healthcare transformation

Healthcare organizations must transform their operations to stay competitive in a converging healthcare system. Stakeholders are increasingly looking to boards and senior management to manage strategic, regulatory and other risks against an ever-changing healthcare landscape.

KPMG’s Enterprise Risk Management (ERM) approach and framework are tailored to help healthcare organizations identify and manage the risks that are most significant in today’s rapidly changing landscape. Our organization-wide approach to risk management is founded on the premise that risks can often present opportunities to create value.

Economic and political uncertainty, evolving market trends, technological innovation, and expanding regulation are all increasing risk exposure for healthcare organizations. Healthcare systems—even those with the strongest brands and greatest resources—are experiencing an escalating pace of change that is disrupting operations and increasing the need for them to manage risk more effectively. Managing risk and remaining competitive in this new environment requires new strategies and focused action plans. However, changing structures and constraints on the availability of human and financial resources can make it challenging to apply industry-leading risk management practices.

The Affordable Care Act (ACA) was passed in March 2010, but it is still unclear how many of its elements will play out and how it will impact healthcare organizations. Accountability measures, organizational structures and the interactions of providers and health plans with both consumers and the government are all changing. In short, the way the healthcare industry has operated traditionally will not be the way it operates in the future.

The current state of healthcare providers

Even before the ACA, there was a general understanding that the healthcare provider business model needed to change, as the existing course was unsustainable. Providers need to consider an overhaul of medical protocols that drive how care is administered. This will require them to make decisions about new operating models for their businesses and how they manage the associated risks. While making these significant changes, in order to be competitive in the future, providers must assess the risks and practical implications of system changes and process efficiencies.
While the move away from the Fee for Service (FFS) model necessarily entails significant financial and implementation risks, the probability of these risks is now becoming much higher than ever before. The risk for most providers is the lack of ability to contract for risk, manage population health effectively, and develop a strategy to build, buy, or align needed health plan capabilities. What is more, the pace of change needed to accomplish this transformation will threaten the viability of many organizations—especially those entrenched in the FFS mindset.

The current state of health plans

The new healthcare business model of online exchanges is only the first step in a transformation that has dramatically changed how health plans do business. While health plans are responding to the impact of technology on infrastructure, benefit plan design, marketing, and consumer interaction, they have yet to address how new government funding mechanisms coupled with increased regulatory requirements and reporting will affect their operations.

Successful health plans will focus on becoming not only compliant but also competitive as they adjust to a dynamic and rapidly evolving healthcare environment. Health plans are working to scale their operations to meet new demand from a more customer-focused business model. They are also looking for opportunities to implement new contracting approaches such as risk-based or performance-based reimbursement models to link payment to outcomes more directly.

When risk presents an opportunity

While changing business models and new organizational structures are increasing industry risks, they also provide some of the biggest opportunities to turn “risk into value.” The most successful organizations will be the ones that embrace these changes and thoroughly consider what the implications of these changes mean to their business, and identify the optimal time to make the change based on their current appetite and state of maturity.

Healthcare organizations must analyze the risks of current and alternative courses of action and manage them accordingly while they develop innovative ways to reinvent and restructure themselves. This will make the difference as to which organizations gain the competitive advantage and which organizations get left behind or—in the worst case—don’t survive.

According to KPMG International’s 2013 report, Expectations of Risk Management Outpacing Capabilities, more than 70 percent of survey respondents indicated that regulatory changes have caused moderate (40 percent) to significant (31 percent) change to the organization’s risk management and reporting process in the past two years, and 67 percent of respondents expect an increase in risk management over the next three years.
ERM is a holistic, integrated, and process-oriented business tool that aligns strategy, processes, people, technology, and knowledge to evaluate and manage the uncertainties that enterprises face. ERM takes an “enterprise-wide” view of risk by removing traditional business unit, segment/division, functional, departmental or cultural barriers to open and honest risk communication. Overall, an effective ERM approach allows organizations to understand their current and emerging risks, allocate resources to manage these risks, and pursue opportunities to improve performance.
KPMG’s holistic approach to managing risk is founded on an organization’s risk management and risk governance infrastructure, culture, and behavior. It aims to improve strategy, performance, and governance by embedding risk management throughout all levels of the organization. This requires developing active discussions of risk in each level of the healthcare organization, including at the strategic initiative level.

**Operations:**
Each department should help make effective risk management the responsibility of everyone within the organization by considering risk in operational decisions and activities. Department-level leaders should consider the risk impact of new regulations, systems, and activities to both their department and to the organization as a whole. They should then escalate the risks that impact other departments or the entire organization.

**Strategic initiatives and transformative projects:**
Risk considerations should also be integrated into strategic initiatives and transformative projects to help ensure that the project risk is in line with the organization’s overall risk appetite and risk tolerance.

According to KPMG International’s 2013 report, *Expectations of Risk Management Outpacing Capabilities*, more than 40 percent of survey respondents indicated that the risk and compliance culture at their organization is only fair or limited in helping to ensure that employees in all functions have an understanding of risk and compliance issues when making business decisions.

**Board members and senior management, stakeholders, and regulators are enhancing scrutiny of risk management programs.** This is putting increased pressure on executives to improve their understanding of the risks facing their organizations and the effect those risks can have on the organization’s strategy. KPMG’s ERM approach can help to optimize a sustainable ERM program by assessing the current state of risk management practices, developing a practical road map to achieve the desired state of risk management, and transferring that knowledge to support a successful ERM initiative.

KPMG’s global ERM methodology and maturity framework creates a tailored risk management program that improves decision making, identifies opportunities to improve performance, and improves resource allocation. It provides the elements of the risk management infrastructure needed to identify, manage, and communicate key risks. This creates an opportunity to formalize the board’s accountability and risk oversight responsibilities as well as its audit and compliance monitoring activities. It also allows organizations to implement a sustainable compliance program that acts as a strategic monitoring and reporting tool.
Assessing and mitigating enterprise risk at an international health system

A large, international health system required assistance in developing a systematic approach to managing strategic, operational, financial, and regulatory risks. KPMG followed a structured, yet flexible approach to developing an enterprise risk management (ERM) model and assessment that covered the major risk analysis and risk management components.

KPMG’s approach began by assessing the organization’s current risk management activities, understanding management’s goals and objectives for the ERM program, and developing customized risk-ranking criteria, categories, and definitions. The next step included developing a comprehensive risk profile and comparing it to industry risks common to similar organizations. KPMG then demonstrated to management how each risk area could be addressed and monitored, and provided tactical ERM training sessions and ongoing guidance for the organization’s work groups.

KPMG also provided the organization with risk assessment tools and templates that could be used by business process owners to integrate risk assessment procedures into existing business processes. Finally, the project promoted the active engagement of the organization’s leadership in the ERM process to ensure the success of the program and foster risk awareness throughout the enterprise.

Healthcare organizations are learning that competing in this rapidly changing landscape requires a holistic and integrated approach to managing risk. As part of their governance framework, management needs to identify strategic, operational, and financial risks and their interdependencies before they become insurmountable. This will allow them to take advantage of opportunities while maintaining strategic direction and meeting performance goals.
The healthcare industry is experiencing an escalating pace of change and disruption. To remain competitive in this environment, it is essential that healthcare organizations have an effective and efficient model for identifying, assessing, and managing risk. They must also embed that model throughout the organization as part of the ongoing governance and organizational culture. Most importantly, integrating considerations of risk into decision making can help organizations turn risk management from a compliance process to a source of value.

There are several key considerations that can guide healthcare organizations in this new risk environment:

**Recognize that good risk management entails both defense and offense.** While a solid defense is essential, more organizations today see good risk management as a strategic capability that helps people throughout the organization make smart, risk-adjusted decisions, shape strategy, and add competitive value.

**Build upon solid risk management practices and activities.** Healthcare organizations can improve risk management practices currently used in their organization by developing a more consistent discussion, risk criteria, or risk reporting.

**Focus on the enterprise-wide risks in strategic initiatives or transformational projects.** In addition to project risk, strategic initiatives or transformational projects may also involve risks to meeting your strategic objectives.

These days, it seems everyone is talking about healthcare transformation. However, “transformation” really only focuses on a subset of what is currently happening in the U.S. healthcare ecosystem, and does not adequately address what is happening more broadly at a systemic level.

At KPMG, we believe that health plans, providers, and life sciences companies should be thinking beyond transformation and focus more on healthcare “convergence” and the broader implications of operating in a more collaborative and integrated U.S. healthcare delivery model. While transformation of current operations is likely going to be a business requirement, the real question for forward-looking organizations is what role they plan to play in a new and more converged health system.

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KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 155,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.
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