

GOVERNANCE AND VALUE-BASED PURCHASING: WHAT EMPLOYERS NEED TO KNOW

By
Valerie P. Pracilio

In the current economy, employers are increasingly aware of the need to employ value-based purchasing strategies. Similar strategies can also be used by health care organization governing boards.

Today, more health care providers are accepting positions at the boardroom table than in the past. These providers are well trained in the clinical aspects of health care but not the business of health care delivery. It is not surprising that providers often find themselves unprepared for a board member's role as a decision-maker and steward. It has become clear that education is essential to prepare providers for board positions.

The six core responsibilities of board members primarily rely on business models: financial oversight, quality oversight, setting strategic direction, board self-assessment and development, management oversight, and advocacy.¹ Value-based purchasing (VBP) strategies closely align with these responsibilities. VBP is gaining a stronghold in the marketplace and increasing the quality, safety and cost-effectiveness of care delivery. Governance structures that employ VBP strategies will positively contribute to the value of health care delivery.²

Health Care Boards of Directors: Health care boards of directors are composed of businessmen and providers. A team-based approach to board leadership is necessary to build exceptional board relationships. There are 5,747 registered hospitals in the United States, a majority of which are nonprofit (>50%), a small percentage of which are for-profit (<16%) and the remainder of which are governmental organizations.³ The common link among these organizations is the presence of providers on the board.

A health care board typically is composed of stakeholders with a common interest in the organization - payers, clinicians and other employees of the health care organization, accreditors and regulators, members of communities, and the public - all of which have something to gain from VBP strategies.⁴

Governance structures have traditionally been hierarchical, with the board at the top and the chief executive officer and the board committees below. Increasing board accountability has caused a structural shift to a more horizontal arrangement. Boards now rely on the medical expertise of health care providers and the analytic and financial savvy of administration to present a dashboard of the organization's performance.¹

Board structures often include committees which focus on finance, quality, and compensation among other important components of the organization which could benefit from employment of VBP strategies. The individuals serving on these committees inform the board of operations related to their respective component of the organization. Education to prepare leaders for board membership should include VBP to ensure sound decision-making on matters of value and quality.

Quality of Care: The board's role in quality care delivery has been receiving a lot of attention. The greatest advances in quality have come from physicians who recognized the importance of recording and analyzing data which formed the foundation of the quality movement. Dr. Ernest Codman tracked the results of his surgeries and reported them publicly, a process which later became known as the "End Result Idea."⁵

Dr. Avedis Donabedian introduced the “quality triad” as a mechanism to measure quality. He believed the quality could be measured by looking at the structure of the organization, the process of delivering care, and the outcomes that resulted.⁶ Physicians who, like Drs. Codman and Donabedian, recognize the importance of quality measurement and transparency are ideal candidates for board membership. As pay-for-performance becomes more prevalent in the health care market, provider participation on boards also will contribute to the organization’s economic growth.

Providers have the clinical background to understand and interpret the quality reports that are reviewed by the board on a regular basis. Because boards of directors are increasingly held accountable for quality, provider board members have become a critical component of board composition.

Conclusion: Boards of directors of health care organizations are similar in structure to those of businesses. However, the increased scrutiny for board oversight of quality has led to increased participation of providers on boards. Education of incoming board members has not been the traditional model; however, the providers at the board table have become critical to the board’s success. The thinking of businessmen and health care providers are very different; therefore, education is necessary to level the playing field. The synthesis of the provider’s clinical knowledge and the businessman’s financial savvy combined with VBP strategies will lead to the success of the health care organization.

Valerie P. Pracilio is Project Manager for Quality Improvement in the Jefferson School of Population Health

Portions of this article were abstracted from Governance for Health Care Providers: The Call to Leadership.

References:

1. Nash DB, Oetgen WJ, Pracilio VP, eds. *Governance for Health Care Providers: The Call to Leadership*. New York: Productivity Press; 2008.
2. Hartmann CW, Goldfarb NI, Maio V, Roumm AR, and Nash DB. Improving health care quality through value-based purchasing: What can the pioneers teach us? *Value-Based Purchasing*:. 2006;1.
3. American Hospital Association. Fast facts on US hospitals. 2007. Available from: <http://www.aha.org/aha/resource-center/Statistics-and-Studies/fast-facts.html>.
4. Kovner AR. Governance and management. In: Kovner AR, Jonas S, eds. *Health Care Delivery in the United States*. 7th ed. New York, NY: Springer Publishing Company; 2002:339-361.
5. Neuhauser D. Ernest amory codman: The end result of a life in medicine. *Qual Saf Health Care*. 2000;9:142.
6. Satya-Murti S. An introduction to quality assurance in health care. *JAMA*. 2003;290:119-120.