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The presentation will begin shortly.

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Enterprise Risk Management: A Business Tool for Strategic Decisions

An ASHRM Presentation



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An ASHRM Presentation

PRESENTATION OBJECTIVES

Key Concepts of Enterprise Risk Management (ERM)

C-suite Leading the Culture Shift

Methods and Diagnostic Tools

Positive Impact of ERM on Strategic Decisions

- A personal membership group of the AHA
- 6,000 individual members
- Provides education, information & networking opportunities
- Advances the specialty—legislative, regulatory, healthcare community

Vision

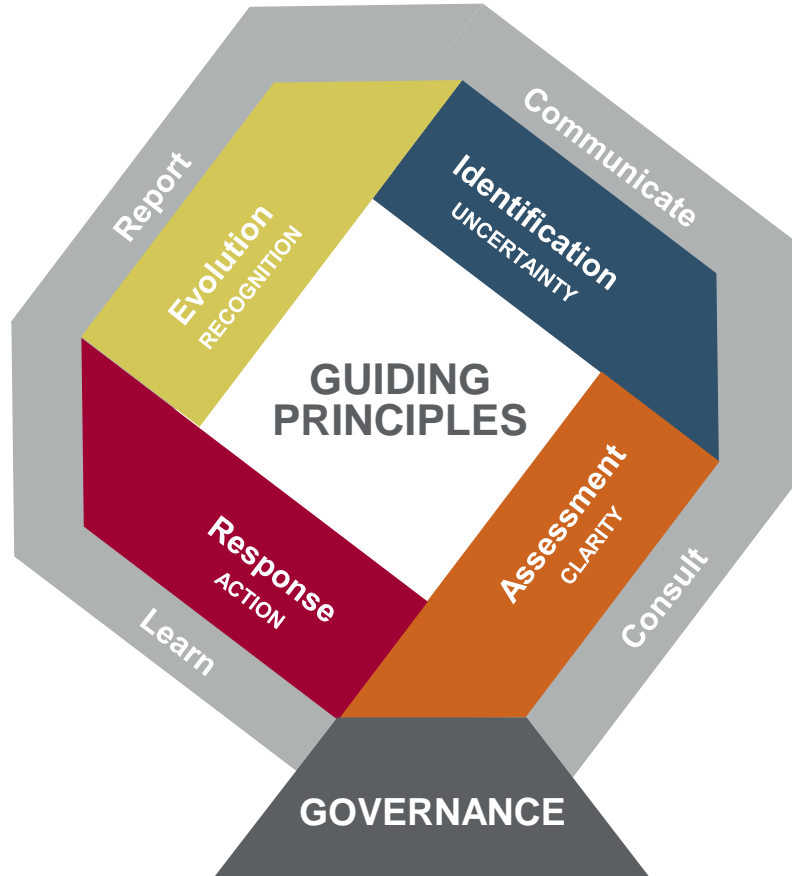
ASHRM is the leader in advancing safe and trusted healthcare through **enterprise risk management.**

Mission

To advance patient safety, reduce uncertainty, and maximize value through management of risk **across the healthcare enterprise.**

SAFE AND TRUSTED HEALTHCARE

ERM in healthcare promotes a **comprehensive framework** for making risk management decisions which maximize **value protection** and **creation** by managing risk and **uncertainty** and their connections to total value.



ERM | Essential Elements

GUIDING PRINCIPLES

Advance safe and trusted healthcare

Manage uncertainty

Maximize value protection and creation

Encourage multidisciplinary accountability

Optimize organizational readiness

Promote positive organizational culture

Advance ERM Practices –continuous/comprehensive

Utilize data/metrics to prioritize risks

Align risk appetite and strategy

TERMS

Value Creation

Value Protection

**Managing
Uncertainty**

Operational

Clinical

Financial

Human Capital

Strategic

Technology

Legal & Regulatory

Hazard

Evaluate synergistic effect of risks



Leading the Culture Shift

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Transition to ERM from TRM is not subtle-requires an assessment of culture

Role of Risk Officer

- Tools and skills different
- Decision facilitator
- Frame accountability and authority
- Promote ERM competence
- Guide integration of ERM
- Set ERM policies and goals
- Development of risk tolerances
- Reporting protocols
- Connection to senior leaders/Board

Role of C-Suite

- Culture shift
- Behavioral ethics
- Resource commitment
- Communicates and models that risk management is intrinsic to everything the company does
- Balance between opportunity and risk

Risk Officer—Skills Needed

**Team Sport—
relationship based**

**Strategic
Thinker—balances
risks—upside with
downside**

**Analytical—data
driven**

**Big Picture—
knowledge of the
business's
operations/entire
"value chain"**

**Financial acumen—
modeling**

**Above all else must
be a Leader, Project
Manager, Synthesizer,
Facilitator and
Communicator**

Cultural Aspects

Success dependent on culture

Messaging –risk aware

ERM not a program but common approach in all business operations

C-suite –role models

Culture Assessment

Learning environment—non-punitive/shared accountability

Board engagement

Accountability for quality and financial performance—balanced

Cultural Assessment-cont.

Risk officer—collaborative leader

External factors—granular/global approach

Data to support decisions

Balance Value Creation/Value Protection

Driving Need for Change

TRADITIONAL

- Silo Approach
- Risk Transfer
- Claims Management
- Loss Control
- Fails to ID Complex Risk

EMERGING

- Healthcare Reform
- Transparency
- Uncertainty in Reimbursement

NEW APPROACH

- Comprehensive
- Strategic Planning
- Risk Financing
- Value Creation
- Value Protection

Breaking Down the Silos: Moving to ERM

ERM PROGRAM MATURITY	BASIC	INTERMEDIATE	ADVANCED
	<ul style="list-style-type: none"> ▪ Compartmentalized risk program ▪ Asset preservation ▪ Value protection ▪ Risk identification is reactive ▪ Inconsistencies in risk management practices ▪ Traditional Risk Management (TRM) program ▪ Focused on “Pure Risk” ▪ Insurance purchased ▪ Risk averse ▪ Risks seen in silos 	<ul style="list-style-type: none"> ▪ Starting to compile and use data for decision-making ▪ Developing an understanding of ERM ▪ ERM strategies and tools utilized for key risks on a unit, departmental basis ▪ Correlation of risk is better understood ▪ Moving to value creation ▪ Risk opportunities identified ▪ “Micro” ERM application 	<ul style="list-style-type: none"> ▪ Fully integrated program ▪ “Everyone is a <i>Risk Manager</i>” ▪ Developed risk appetite and tolerance statement ▪ Use of risk-based decision analysis for decision-making ▪ Developed ERM framework and supportive governance ▪ Risk takers ▪ ERM is a top-down, bottom-up process ▪ Risk identification is proactive ▪ “Macro” ERM application ▪ Value is recognized
EFFICIENCY IN RESOURCE CONSUMPTION			

IDENTIFY RISK AND OPPORTUNITY

Conduct a Risk Inventory

Consider Existing and New Business
Opportunities

Use Subject Matter Experts

Keen Awareness of Inherent Risk

Data –Central to the Culture

Robust process for using data to measure an organization's progress or failure to achieve specific goals?

Data collection process integrated with the organization's financial system to allow for the calculation of economic profit / loss?

A Risk-Aware Culture Understands...

For every project, initiative, and strategic direction there is a...



There are identifiable factors that drive each final outcome:

➤ Some are internal to the organization, others are external.

➤ Some are random, others are not.

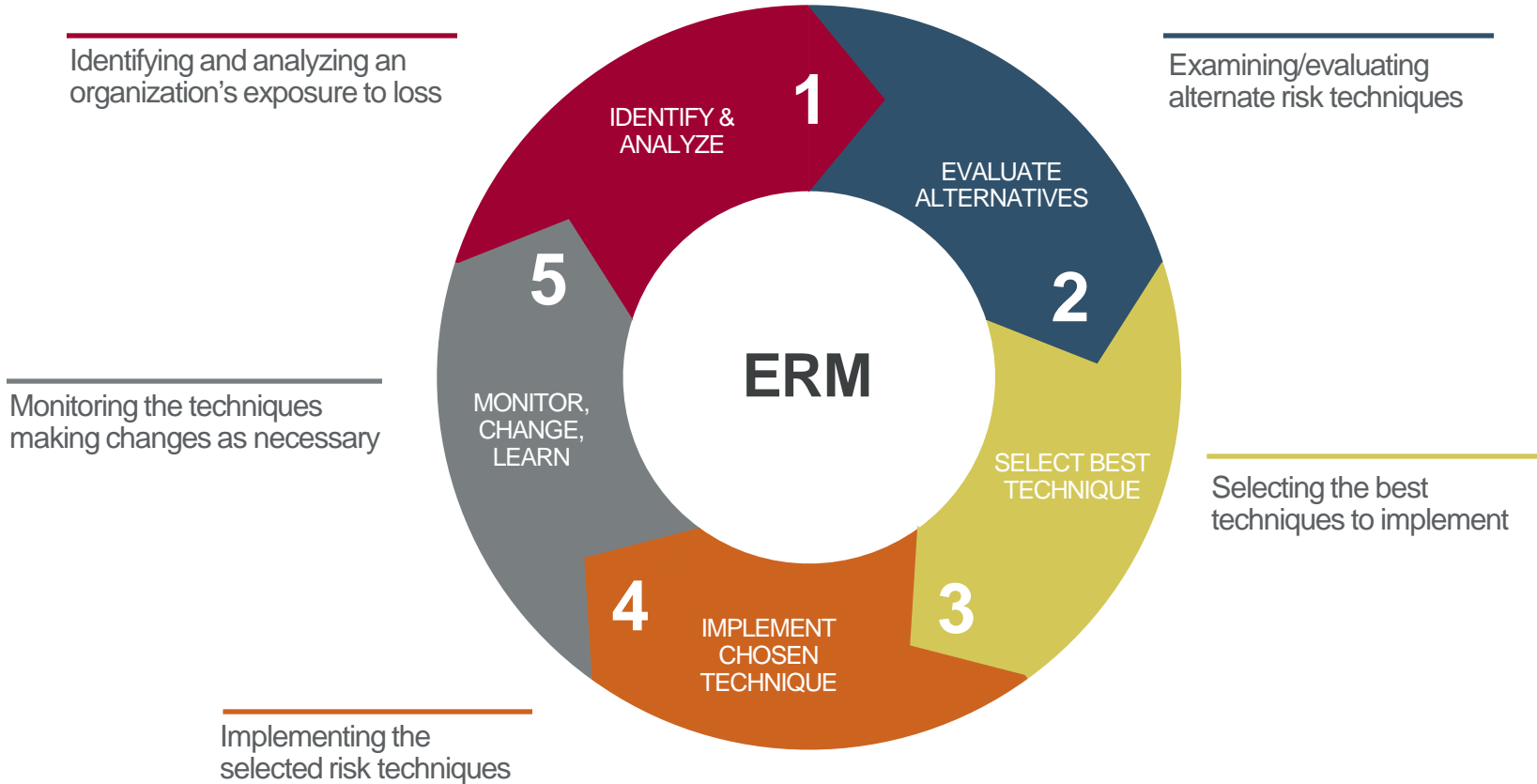
➤ Some are controllable & others are beyond the organization's ability to control.



ERM Methods and Diagnostic Tools

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ERM as a Decision Making Process



safe and trusted healthcare

RANK	IMPACT	RISK CATEGORY	LIKELIHOOD	IMPACT	RISK RANKING
1	Payer Mix / Reimbursements	Financial	4.33	4.42	19.14 (Very High)
2	Billing Accuracy	Financial	4.33	4.25	18.42 (Very High)
3	IT Infrastructure	Technology	4.50	3.92	17.63 (Very High)
4	Confidentiality / Data Security	Technology	4.08	4.08	16.67 (High)
5	Recruitment & Retention (Physician)	Human capital	4.33	3.67	15.89 (High)
6	Health Reform	Strategic / External	3.42	4.25	14.52 (High)
7	Adequate Protocols, Controls & Policies	Operational	3.42	3.92	13.38 (High)
8	Cost Management	Financial	3.08	4.08	12.59 (High)
9	Recruiting & Retention (Non-Physician)	Human Capital	3.50	3.50	12.25 (High)
10	Safety & Security	Operational)	3.58	3.33	11.94 (High)
11	Business Model / Service Units	Strategic / External	3.17	3.75	11.88 (High)
12	Facility & Equipment Management	Hazard	3.83	2.92	11.18 (High)
13	Employee Engagement	Human Capital	3.17	3.50	11.08 (High)
14	Competition	Strategic / External	2.92	3.75	10.94 (High)
15	Quality Outcomes	Clinical	3.17	3.42	10.82 (High)
16	Skills & Competencies	Human Capital	3.17	3.17	10.03 (High)
17	Conflict of Interest	Operational (Non-Clinical)	3.42	2.92	9.97 (Medium)
18	Patient Needs	Strategic / External	3.17	3.08	9.76 (Medium)
19	Support Staff / Staffing Levels	Human Capital	2.91	3.08	8.97 (Medium)
20	Capacity & Availability of Space	Strategic / External	2.92	3.00	8.75 (Medium)
21	Adequate Policies & Procedures	Operational (Non-Clinical)	3.08	2.75	8.48 (Medium)
22	Compliance	Operational (Non-Clinical)	2.50	2.83	7.08 (Medium)

Risk Assessment Scales | LIKELIHOOD

RATING	LIKELIHOOD	
	DESCRIPTION	CHARACTERISTICS
5	Almost Certain/ Already Occurring	<ul style="list-style-type: none"> ▪ In System / Process: Knowledge Based Decisions by Trained Person ▪ Controls: Not Working / May Not Exist ▪ Expected to Occur: Daily / Weekly
4	Likely	<ul style="list-style-type: none"> ▪ In System / Process: Rule-Based Decisions by Trained Person ▪ Expected to Occur: Annually
3	Potential	<ul style="list-style-type: none"> ▪ In System / Process: Automated or Controlled by Trained Person ▪ Controls: Preventative not Detective ▪ Expected to Occur: Every 2 – 5 Years
2	Unlikely	<ul style="list-style-type: none"> ▪ In System / Process: Highly Automated with Validation and Monitoring ▪ Expected to Occur: Every 5 – 20 Years
1	Rare	<ul style="list-style-type: none"> ▪ Controls: Preventative and Detective ▪ Not Expected to Occur

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Risk Assessment Scales | IMPACT / SEVERITY

RATING	IMPACT				
	FINANCIAL	PATIENT SAFETY	OPERATIONS/PROCESS	REPUTATIONAL	LEGAL/REGULATORY
5 Critical	<ul style="list-style-type: none"> Cash: Results in <20 Days Cash on Hand Property Damage: >\$250,000 Key contract loss Loss of business 	<ul style="list-style-type: none"> Death / Permanent Disability Event: Suicide / Rape / Child Abduction 	<ul style="list-style-type: none"> Significant Labor Relations Event Workplace Safety: Multiple lost time injuries / recordable incidents PHI / PI Breach: >100 	<ul style="list-style-type: none"> Significant brand impairment; loss of significant market share Sustained, negative media coverage Customer Satisfaction: <85% 	<ul style="list-style-type: none"> Loss of license State / Federal investigation
4 Major	<ul style="list-style-type: none"> Cash / Expense: \$150,000 Property Damage: \$100,000 – 250,000 Additional unexpected capital required 	<ul style="list-style-type: none"> Substantiated boundary or code of conduct incident Major or critical health incident Non-compliance with Standard of Care 	<ul style="list-style-type: none"> Loss / Significant turnover of key personnel IT systems disruption Workplace Safety: Lost time and recordable incidents PHI / PI Breach: <100 	<ul style="list-style-type: none"> Temporary but significant negative media coverage Customer Satisfaction: 85-88% 	<ul style="list-style-type: none"> State / Federal inquiry (not investigation)
3 Moderate	<ul style="list-style-type: none"> Cash / Expense: \$50,000 Property Damage: \$10,000 – 100,000 	<ul style="list-style-type: none"> Upward trend in minor health incidents No clinical continuity 	<ul style="list-style-type: none"> Loss of or increased turnover in key positions Operational disruption or increased costs due to regulatory change 	<ul style="list-style-type: none"> Negative media mention (state) Customer Satisfaction: 88-90% 	<ul style="list-style-type: none"> Corporate non-compliance with financial impact Insurance access implications
2 Minor	<ul style="list-style-type: none"> Cash / Expense: \$10,000 Property Damage: <\$10,000 	<ul style="list-style-type: none"> Minor health incidents; Patient not knowledgeable of failure 	<ul style="list-style-type: none"> Distraction in employee base 	<ul style="list-style-type: none"> Customer Satisfaction: 90-94% 	<ul style="list-style-type: none"> Minor violations (e.g. Auto)
1 Insignificant	<ul style="list-style-type: none"> Insignificant property damage or impact to cash 	<ul style="list-style-type: none"> No impact on the delivery of care 		<ul style="list-style-type: none"> Customer Satisfaction: >95% 	

1

Probability X Severity = Risk Score

1 to 5 X 1 to 5 = Risk Score

1 X 1 = 1 (*lowest score*)

5 X 5 = 25 (*max. score*)

2

(Probability + Time to Impact) X Severity = Risk Score

(1 to 5 + 1 to 3) X 1 to 5 = Risk Score

1 + 1 X 1 = 2 (*lowest score*)

5 + 3 X 5 = 40 (*highest score*)

Risk Ranking Process

RISK RANKING OVERVIEW

- Risk ranking provides an initial means of prioritizing assessed risks based upon assessments of **IMPACT** and **LIKELIHOOD**.
 - Risks were assessed assuming the effectiveness of existing risk management activities.
- Risk rankings are used to identify a risk's position on a **Risk Map**.

RISK RANKING CALCULATION STEPS

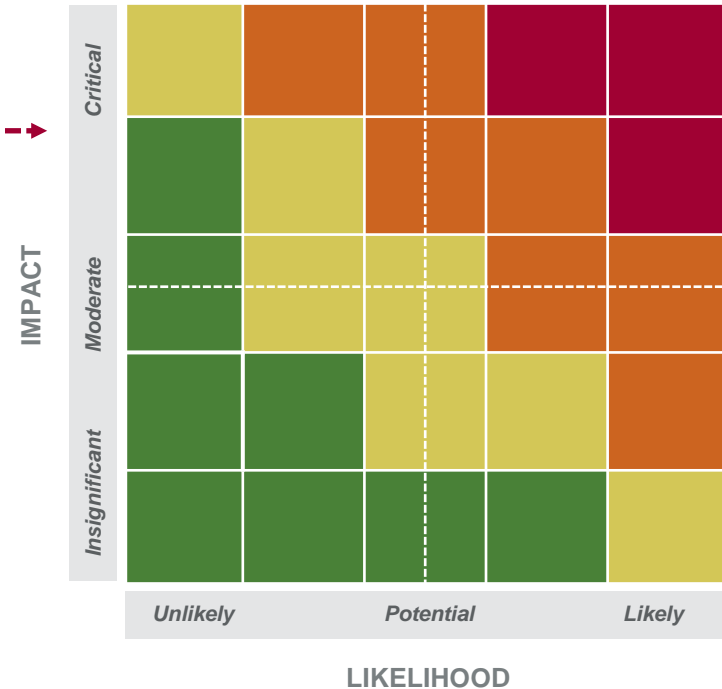
- Multiply the **IMPACT** assessment and the **LIKELIHOOD** assessment for each risk.
- Reference the product against a range of values.
- Assign one of four risk rankings (*Very High, High, Medium or Low*) based upon referenced range.

RISK RANKING

RANK	RANGE
VERY HIGH	Greater than 17.0
HIGH	Greater than 10.0, but less than 17.0
MEDIUM	Greater than 5, but less than 10.0
LOW	Less than 5.0

RISK RANKING MATRIX

Risk Map



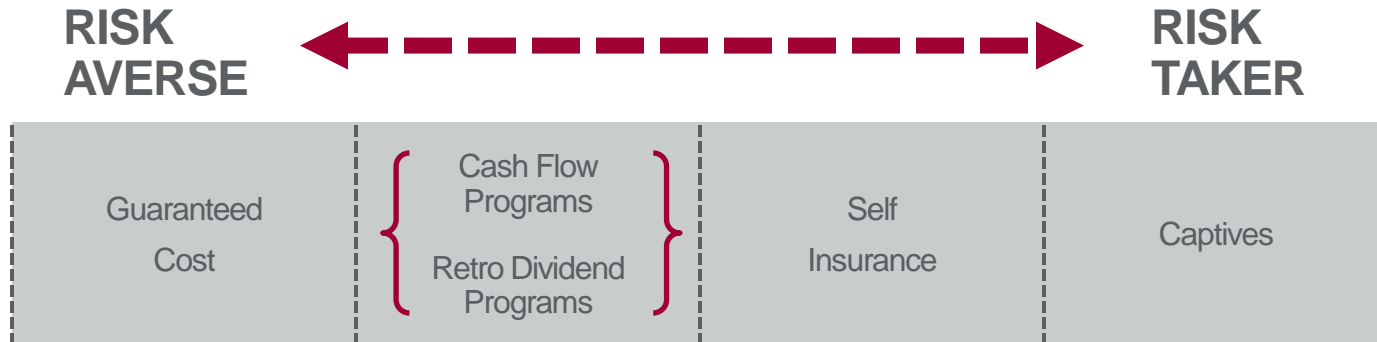
Establishing Risk Tolerance & Risk Appetite

Risk Tolerance

An articulated quantified measure of the maximum amount of risk an organization can stand to assume in order to avoid failing to meet its objectives.

Risk Appetite

An articulated quantified measure of the amount of risk an organization seeks to assume in order to maximize fulfillment of its objectives.



Most organizations fail to recognize the effect of one risk upon another risk, focusing only on one risk at a time.



Negative Correlation

The probability or impact of one risk increasing triggers a corresponding decrease in another risk (ex. ventilator patients).



Positive Correlation

The probability or impact of one risk increases also affects an associated risk increasing (increased work hours).

Key Performance Indicators
KPIs

Track achievement of specific organizational goals:

FINANCIAL

Days cash on hand

HUMAN RESOURCES

Turnover rate

OPERATIONAL

30-day readmission rate

Key Risk Indicators
KRIs

Factors that drive risks related to specific initiatives:

CONSTRUCTION

Weather delays,
material cost over-runs

SERVICE LINE EXPANSION

Labor shortages

ACO DEVELOPMENT

Lack of physician alignment,
competition from other ACOs



Impact of ERM on Strategy and Outcomes

WHY ERM?

Discipline to the Process—Too Much at Stake to Wing it

Balance Up-side and Down-side of Risk

Balance Brainstorming and Reality—Proactive Approach—Connects the Dots

Board Confidence

Cyber-Liability- Data Security | RISK OVERVIEW

Inability to protect confidential and/or private information

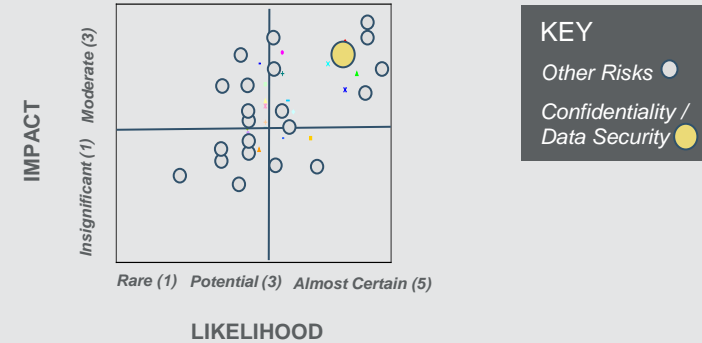
Risk Drivers

- Use of laptops without appropriate firewalls and encryption; lack of remote access for laptops used in field
 - Potential for theft
 - Age of existing laptops; inability to use encryption technology
- Extensive documentation (often on paper) of patient information, gathered while employees are in the field
- Inconsistent policy / procedure to address a breach of confidentiality or privacy by employees
- Lack of understanding among employees regarding the importance of maintaining patient privacy / confidentiality
 - Lack of employee knowledge / training regarding legal issues and privileged information
- Inadequate IT infrastructure to support documentation and storing of confidential patient and employee information
- Growth in social networking and the ability of patients to post pictures and information online; information posted may be that of another patient

Existing Risk Management Activities

- Maintaining various IT / administrative policies, including use of cell phones, zip drives
- Using partial names in documents so as to protect privacy
- Requesting / obtaining opinion on privileged information requests
- Raising awareness among employees regarding the importance of confidentiality / data security

Risk Assessment Results: Risk Map



Risk Assessment Results: Voting Details

Assessment Details	
Impact	4.08
Likelihood	4.08
Risk Ranking Score	High

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ERM Impact Examples

Urgent Care

Physician
Employment

Robotics

$$TCOR = C_P + C_{UL} + C_{XS} + C_A$$



The premium cost is the fixed element of the cost of risk and represents the dollars paid to an insurance company for coverage

This is the cost of claims not covered by insurance or contractual indemnity (C_{UL}), cost of losses in excess of policy limits, deductibles, and monies for self-insured funding (C_{XS})

These include:
External costs

Brokerage, risk control consultants, Third Party Administrator (TPA) costs

and **Internal** costs

Salaries, RMIS, risk control activities

associated with administering the risk management program.

TCOR is the complete cost associated with any type of insurance risk.

Hallmarks of Sustainable ERM for High Impact

- 1 Board-level commitment
- 2 A dedicated risk executive
- 3 An ERM culture that encourages full engagement and accountability
- 4 Engagement of stakeholders
- 5 Transparency
- 6 Integration of financial and operational risk information
- 7 Use of sophisticated quantification methods
- 8 Identification of new and emerging risks
- 9 A move from focusing on risk avoidance and mitigation

**ERM -central process to
business operations will meet
the challenge of protecting
value and creating value**

- RISK GOVERNANCE
- SHARED VIEW OF RISK
- CONSISE RISK APPETITE STATEMENT
- ACCOUNTABILITY-REPORTING

CULTURE SHIFT

C-SUITE ROLE IS KEY

**RISK OFFICER SUPPORT
AND SKILLS**



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