

Summary — Healthcare and Life Sciences Industry Group Results

## Executive Perspectives on Top Risks for 2018: Key Issues Being Discussed in the Boardroom and C-Suite

Research Conducted by Protiviti and North Carolina State University's ERM Initiative

*Technological advancements. Disruptive innovations threatening core business models. Recurring natural disasters with catastrophic impact. Soaring equity markets. Turnover of leadership in key political positions. Potential changes in interest rates. Cyber breaches on a massive scale. Terrorism. Elections in Europe. Threats of nuclear engagement. A strong U.S. dollar. These and a host of other significant risk drivers are all contributing to the risk dialogue happening today in boardrooms and executive suites.*

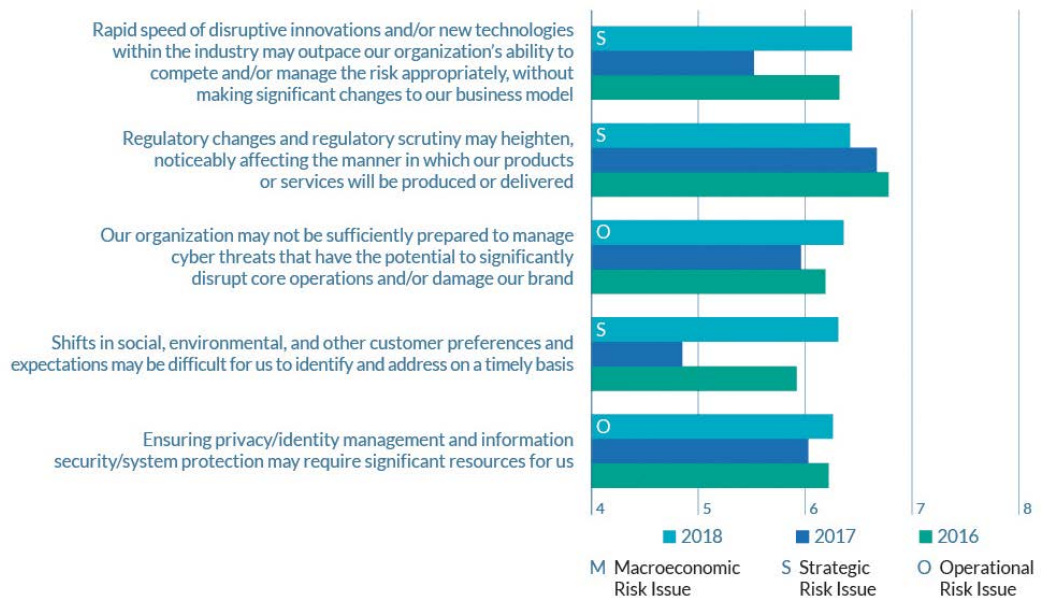
Expectations of key stakeholders regarding the need for greater transparency about the nature and magnitude of risks undertaken in executing an organization's corporate strategy continue to be high. Pressures from boards, volatile markets, intensifying competition, demanding regulatory requirements, fear of catastrophic events and other dynamic forces are leading to increasing calls for management to design and implement effective risk management capabilities and response mechanisms to identify and assess the organization's key risk exposures, with the intent of reducing them to an acceptable level.

In this sixth annual survey, Protiviti and North Carolina State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives. Our respondent group, which includes 728 board members and C-suite executives from around the world, provided their perspectives about the potential impact over the next 12 months of 30 risk issues across these three dimensions:

- **Macroeconomic risks** likely to affect their organization's growth opportunities
- **Strategic risks** the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organization in executing its strategy

## Healthcare and Life Sciences Industry Group – Top Risks for 2018

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### Commentary — Healthcare and Life Sciences Industry Group

The recent acceleration of digital technology and connectivity within healthcare has led to significant improvements in patient care delivery, more effective population health management and better patient outcomes. According to data from the Centers for Medicare and Medicaid Services, more than 95 percent of acute care hospitals and nearly 80 percent of office-based physicians have adopted Certified Electronic Health Record Technology. Combined with the increasing focus on disruptive innovations in areas of virtual care, telehealth, artificial intelligence and the Internet of Things, an abundance of new data is becoming available to healthcare providers. While this creates a window of opportunity for organizations to enhance competitive advantage by maximizing the use of information to provide more efficient, higher quality care to patients, additional risks are also being introduced and proactive management of those risks is more imperative than ever before. The reality is that healthcare organizations are behind other industries in terms of having robust digital strategies in place and being significantly mature in their digital capabilities. This reality presents a challenge for the industry because in the coming years the way that care is provided, along with how information and technologies are utilized, will be vastly different than today.

There has been a dramatic shift, not only trending upward, but also a difference in how risks are now perceived by healthcare C-suite and board members. One of the risks moving from a moderate to a significant risk this year is “shifts in social, environmental, and other customer preferences and expectations.”

As population health and value-based payment models begin taking center stage, there is a shift from the providers having control over price and quality of care to patients having ultimate control based on their ability to view provider quality scores and perform comparisons in order to make more informed decisions about who will provide their care. Also, with the generational shift to where millennials are now active decision-makers, they have different demands and require new approaches for receiving and obtaining care, which at the moment is difficult for providers to identify and be flexible enough to address on a timely basis.

As part of the Quality Payment Program (QPP) that was implemented as a provision of the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA), providers need to have strategic objectives aimed at improving health outcomes, promoting smarter spending, minimizing burden of participation, and providing fairness and transparency in operations. In addition, providers have to focus on improving beneficiary outcomes and engaging patients through patient-centered Advanced Alternative Payment Models and Merit-Based Incentive Payment System policies. Furthermore, providers also have to concentrate on promoting program understanding and maximizing participation through customized communication, education, outreach and support that meet the needs of the diversity of physician practices and patients, especially the unique needs of small practices. With the changing roles and responsibilities of both non-clinicians and clinicians, organizations should also be rethinking their recruiting, training and development models to empower and engage their workforce to optimize the quality of care and enhance customer experience.

There will continue to be uncertainty about the future of the Affordable Care Act (ACA), which makes it very difficult to identify and address the associated risks both from the provider and patient standpoint. New technologies and innovations in computing and big data services are changing the way health information is recorded and delivered between

patients and providers. Electronic health records, clinical documentation tools and telemedicine are changing the way that providers collect and consume health information regarding their patients, as well as patient demands for the consumption of and access to their data. In this current environment with new technologies and consumption of patient data, there are also unknown cyber security risks and questions about the ability of providers to identify and address these risks.

Based on the variables at play, it is prudent for providers to rethink their business models to maximize their efficiencies and bolster their organizations' preparedness and readiness models. This should include implementing, monitoring and testing internal controls to protect patient data to make sure those controls are working as intended.

As for the regulatory landscape, it appears to be trending downward slightly in the United States as a concern from prior years. This downward trend is likely due to an increased understanding of healthcare reform from the ACA; unsuccessful repeated attempts to repeal and replace or overhaul the ACA; less disruptive, incremental changes to regulations; and increased emphasis on effective compliance programs. However, the cost of staying on top of the regulatory environment has increased in part by government agencies imposing significant fines and take-backs for fraud, waste and abuse violations. With the collaboration between various government agencies (e.g., OIG, CMS, OCR, DOJ), the focus and scope of enforcement activities continue to expand (e.g., HIPAA audits, telehealth services, Stark Law and Anti-Kickback Statutes). Considering the Yates Memo and other enforcement clarifications, it is likely that the trend of increased and evolving enforcement will continue.

Finally, on a similar note, cyber threats are expanding in frequency, scale and impact at an alarming rate within the healthcare industry. This cyber threat growth is attributed to the increase in the number and advanced capabilities of the threat actor, the expansion in the threat surface through explosive growth in use of technology (e.g., Internet of Things, personal wearables, medical devices) and the seamless interconnectivity between technologies. These constantly evolving cyber threats may expose healthcare organizations to cyber attacks that can potentially impact patient care delivery, safety and privacy. Many healthcare providers need additional, immediate improvements to address associated risks.

Unfortunately, this new risk environment is also compounded significantly by an overall shortage of resources. Whether faced with budgetary constraints that limit the ability to implement sufficient tools, technologies and processes, and/or faced with the lack of qualified security professionals to sufficiently prepare the organization to mitigate the onslaught of attacks, many healthcare organizations are not prepared to effectively manage cyber threats today and beyond. Making matters more complicated, associated mitigation activities are not one-time efforts. As existing threats evolve and new threats emerge on a seemingly daily basis, healthcare organizations must dedicate significant resources to staying at least one step ahead.

Healthcare organizations wishing not to be left behind, or not to be exposed to significant breaches and cyber attacks, will need to implement flexible and forward-thinking strategies that allow for nimble business models that adapt to the ever-changing environment while proactively managing risk along the way.

For further results and a copy of the overall survey report, visit

[www.protiviti.com/toprisks](http://www.protiviti.com/toprisks).

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## About Protiviti

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We have served more than 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

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