THE UNIVERSITY of NEW MEXICO

UNM | HEALTH SCIENCES CENTER

Assessment of Current UNM Health Sciences Governance Structures

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Final Version

THE CHARTIS GROUP

Boston · Chicago · New York · San Francisco

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1. Scope of Work and Project Objectives

The primary objective of this governance assessment is to develop one or more recommendations to the UNM President, the Executive Vice President of the Health Sciences Center, and the UNM Regents to strengthen potential board and/or board committee governance and reporting structures and systems, in view of statutory opportunities or limitations under the New Mexico Constitution and laws, for the UNM Health Sciences Center (HSC) and its affiliated entities to maximize the efficiency and effectiveness of the clinical, education, and research missions of the UNM HSC and its affiliated entities.

The following issues should be addressed to achieve these objectives. The specific project goals and approach include:

- **Understand the Strategic Context.** The goal of the work in this area is to provide a framework for assessing the current organization and governance models and for evaluating alternative approaches.
- **Assess the Ability of the Current Organization and Governance Mechanisms to Realize UNM's Strategic Objectives.** The goal is to assess the effectiveness of the current organization and governance in meeting current and future objectives. The assessment included defining the current structures, interviewing key UNM Regents, UNMH Board members, faculty, and executives, reviewing enabling documents (bylaws, legislative documents, key contracts, etc.), and attending meetings of key Boards and Committees if possible. The assessment, per se, is found in section four of this document.
- **Recommend Changes in the Governance of the Health Sciences Center Components.** The goal of the work in this area is to determine if changes in the configuration of UNM's health care activities are necessary or desirable. The outcome of this effort is a proposal for how to optimally configure the organizations comprising UNM's Health Sciences Center. The proposal reflects leadership's views regarding the future strategic direction of the Health Sciences Center and the activities that will be required to maintain and enhance future success. The evaluation of alternative HSC models has been bounded by the types of models that are feasible given the current ownership and governance models for the entities comprising the AHC. Specific recommendations are presented in section five of this document.
- **Recommend Additional Changes Supportive of the new Governance and Organizational Model.** Chartis' experience is that governance and structural alignment are helpful but not sufficient for achieving organizational alignment. There are numerous examples of AHCs with fully integrated structures where the organization is not aligned around a common vision and strategic direction. At the same time, there are numerous AHCs that have succeeded by aligning their strategy, management and economics without changing their governance structures. Ideally, UNM's HSC will achieve alignment in strategy, governance, economics, and management. "Supportive recommendations and changes" are discussed in section six of this document.

2. UNM Health Science Center Strategic Context

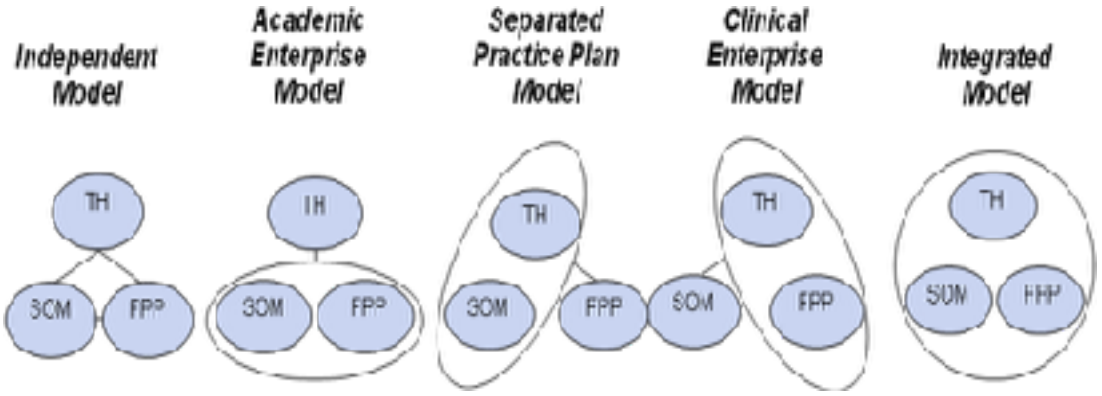
2.1. Trends in Academic Medicine Organization and Governance

The question of how to best structure and govern the modern academic health center seems to have been a pressing topic of conversation for the last thirty years. In the 1980's, changes in government reimbursement mechanisms drove a trend towards separating the academic health center from its traditional university foundation to minimize financial exposure and risk. In the 1990's, the drive towards managed care and economies of scale in massive hospital systems (e.g., Columbia HCA, large regional not-for-profit hospital systems) drove a trend toward AHCs affiliating with or acquiring non-academic providers. The drive for cost reduction and scale finally abated somewhat with the budgetary relief that academic medicine received from the 1997 Balanced Budget Act. The past ten years has been a period of remarkable growth and profitability. Even as much of the economy struggles, many AHCs are experiencing record profitability.

Record profitability has its benefits. The past decade has seen more facility upgrades than ever before. However, it also has drawbacks. Primary among the drawbacks is that the AHC has become very difficult to govern and manage if the organization is not well aligned. In days of scarcer resources, AHC partners were compelled to work together and in many cases the financial resources so generated were just sufficient to meet basic operating needs. As the available financial resources have grown, dissension over how to divide the funds has multiplied. A small cottage industry developed around the arcane topic of "Funds Flow." Funds Flow essentially addresses the question of how to fairly allocate financial resources derived from the AHC's clinical enterprise amongst the participants.

The strongest trend in AHC organization and governance within the past ten years has been towards reintegration of the AHC with accountability to a single governing board and/or executive leader. This reintegration has been occurring in both governance and executive leadership. The driving force behind the reintegration trend has been the difficulty of administering separate entities (e.g., hospitals, medical groups) that operate under different incentive structures towards the ultimate success of the collective AHC. Edward Miller, Dean of Johns Hopkins School of Medicine, asserted the imperative in a quote cited in the 2006 Association of Academic Health Centers annual report. "You cannot have wars between the school of medicine and the hospital. It just doesn't work. You spend too much energy protecting your own turf rather than thinking about the entire enterpise." (quoted from D. Barrett, Academic Medicine, Vol 83, No.9 page 807 from September 2008). Evidence of the trend is starkly manifest in the September 2008 publication of Academic Medicine wherein 10 case studies of AHC evolution and organizational change are presented. The trend itself is identified and addressed by Wietecha, Lipstein, and Rabkin in the February 2009 edition of Academic Medicine under the title of "Governance of the Academic Health Center: Striking the Balance between Service and Scholarship."

The five basic variations of AHC organization have been well documented and discussed. The following graphic is included as a point of reference.

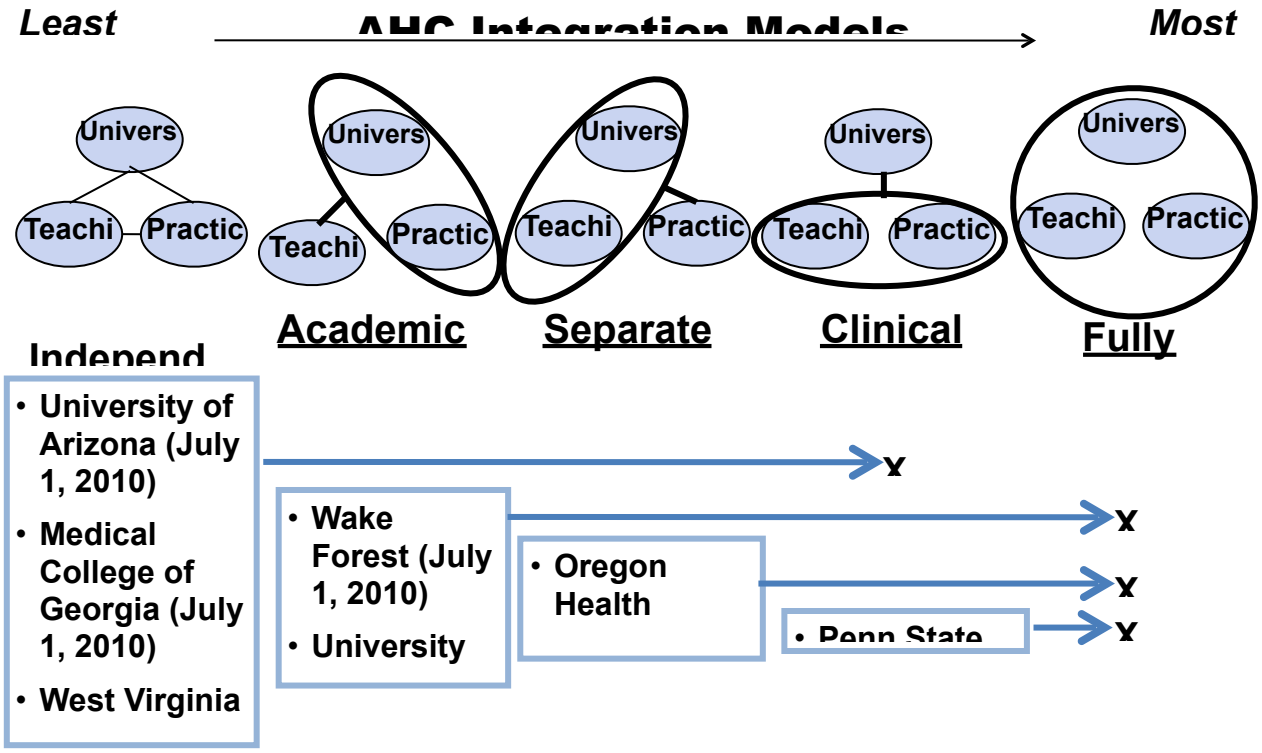


Legend:

- TH is the teaching hospital
- SOM is the school of medicine
- FPP is the faculty practice plan

The black ovals indicate which parts of the AHC are under university governance

The following graphic demonstrates the evolution toward greater integration in the recent past.



Arizona, the Medical College of Georgia, West Virginia, Wake Forest, and Dartmouth all have made recent significant organizational changes as clients of The Chartis Group. While this graphic is not intended to comprehensively document all governance and organizational structure changes in AHCs, it's clear that there is a very significant momentum towards greater integration right now. AHC's that moved toward greater integration earlier (e.g., Penn with Penn Medicine, UW with UW Medicine) have demonstrated the potential value by having increased success since their reintegration and by resolving previously intractable organizational tensions.

AHCs have pursued greater organizational integration with the intent to:

- Develop a single, unified strategy and structure that links clinical and academic success
- Deliver consistent, high value, and seamless performance in all mission areas
- Drive appropriate compensation for health care services from payers
- Increase the ability to develop capital resources
- Improve resource allocation (e.g., capital spending) to optimize health sciences performance
- Improve efficiency by rationalizing administration and infrastructure
- Make better decisions

2.2. New Mexico and Greater Albuquerque Market for Health Care Services

The scope and funding eventually agreed upon for the assessment did not allocate resources or time for a formal evaluation of the UNM HSC market position. However, there are a number of points which have become evident through the stakeholder interviews, discussions with the leadership team, and Chartis' relevant academic health care experience from other markets that should be mentioned:

- Academic health centers thrive on developing and offering services at the cutting edge of what is available in health care
- Academic health centers in small population states (e.g., New Mexico, Utah, Arizona, Oregon, and even Washington) must draw patients regionally--beyond the state boundaries--to acquire sufficient scale and volume to offer the most advanced health care services
- Less populated geographies within New Mexico and the immediately adjacent states make natural markets for UNM because the populations will be insufficiently large, taken individually, to support some physician specialties and most sub-specialties
- To capture these important patients for the HSC, the UNM clinical enterprise needs to design its delivery organization inclusive of the ability to meet these patients needs
- The UNM clinical enterprise model needs to incorporate the ability to support a diversity of relationships with local market providers without creating an administrative nightmare
- In total, the governance and organization redesign initiative should be undertaken with the understanding that the UNM clinical enterprise will eventually be much larger than it is today and will be more geographically dispersed than it is today
- "Scalability" should be a required outcome from any organizational changes or governance redesign

2.3. Within UNM: The Health Sciences Center

The University of New Mexico's Health Sciences Center consists of multiple entities that operate under related but differing governance models. The multiplication of HSC entities has created a concern that the current approach may impede the Health Science Center's ability to administer itself effectively and to continue to grow. The signal event for initiating an organizational and governance redesign effort was the agreement to develop the Sandoval Regional Medical Center. The key organizational units comprising the HSC include:

- **The School of Medicine** and the **Colleges of Nursing and Pharmacy** are operating divisions of the University that are governed by the Board of Regents. The Board of Regents has a Health Sciences subcommittee as well as Academic & Student Affairs and Finance and Facilities subcommittees. Each subcommittee plays a role in HSC governance according to their specific stewardships. The Health Sciences Center is led by the University's EVP for Health Sciences who currently also serves as Dean of the School of Medicine.

- **UNM Medical Group**, Inc. (**UNMMG),** serves as the faculty practice plan for physicians and other medical providers associated with the Health Sciences Center. UNM Medical Group, Inc. is a New Mexico Non-Profit Corporation incorporated under the University Research Park act. Its sole corporate member is UNM. UNMMG's governance is similar to most faculty practice plans with a Board consisting of the Clinical Chairs, Dean of Medicine, Senior Associate Dean for Clinical Affairs, 1 University Regent, 2 community members and the Director of UNM's Cancer Center.
- In the 1950s, Bernalillo County Indian Hospital expanded its role to include serving as the County's public indigent care hospital. It subsequently became the Bernalillo County Medical Center. In 1969, UNM leased the hospital from Bernalillo County to serve as its teaching hospital. The 1999 lease provides that UNM will operate the hospital as "**UNM Hospital (UNMH)**." Under the lease arrangement, the Board of Regents delegates specific governance responsibilities to the UNMH Board of Trustees; the Regents appoint 7 of 9 Board members and the County Commissioners appoint 2 of 9 UNMH Board members.
- **UNM Sandoval Regional Medical Center (SRMC)** is a new hospital under development approximately 35 minutes drive from the Albuquerque campus. The region's growing population, particularly the 65+ population, has created a need for additional beds and surgical capacity. SRMC is being developed with financial support from a variety of sources, including UNMH, UNMMG, and Sandoval County. SRMC is a tax exempt corporation whose sole corporate member is the University. SRMC's Board is separate and distinct from the UNMH and UNMG Boards. The Board of SRMC includes key leaders from the HSC executive team in addition to representatives from the UNM Board of Regents, the UNMH Board and the Sandoval County Commissioners. The new hospital will provide capacity needed by the faculty to expand their patient base and to compete more effectively with Presbyterian Health System. However, the separate ownership structures of SRMC and UNMH has the potential to reduce alignment within the HSC as has occurred at several other academic health centers (AHC) where there are multiple university-affiliated hospitals with differing ownership and governance models. For example, University of Arizona's faculty practice plan took over a nearby county hospital which reduced alignment and coordination with the University Medical Center. The University of Miami recently acquired a hospital from HCA across the street from its primary teaching hospital, Jackson Memorial; this situation has also reduced alignment and coordination.

3. UNM HSC Organizational Assessment

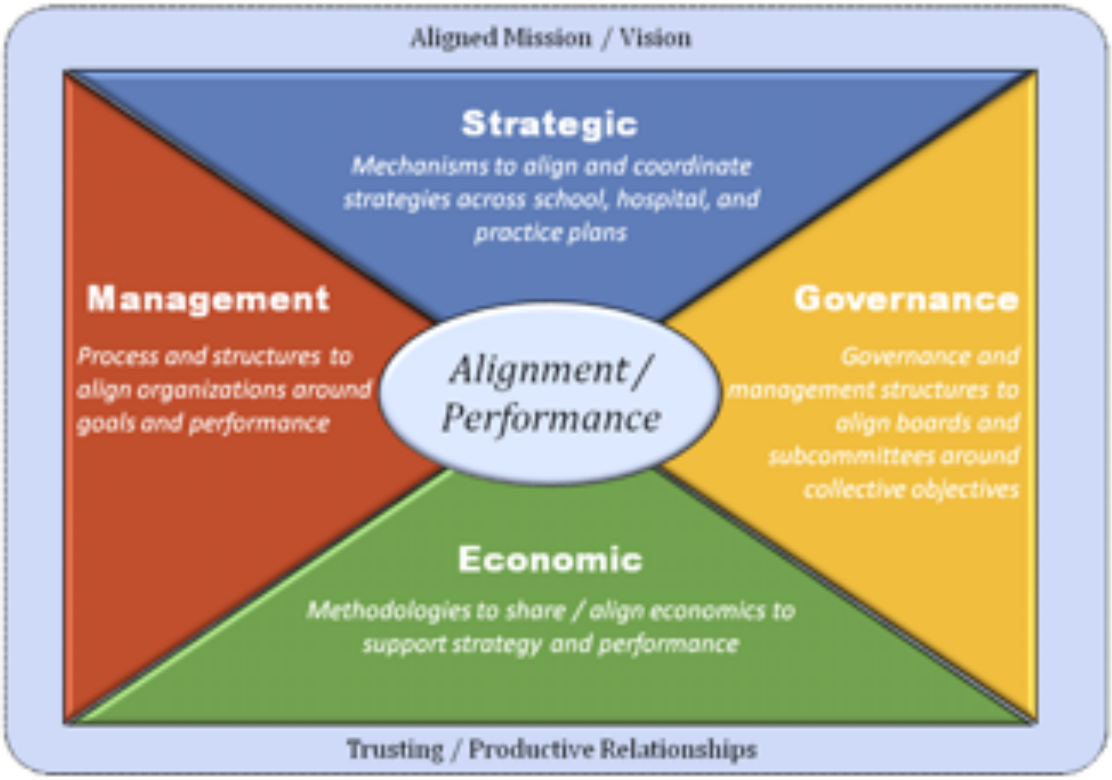
3.1. Alignment in an Academic Health Center

The ability to make decisions efficiently and effectively will be a key success factor in the coming years for every academic health center in the US. The Chartis Group has interviewed leadership from 22 AHCs over the past year. The interviewees were unanimous in their view that greater alignment will be required over the coming years. The following quote typifies why the survey respondents perceive alignment to be so important to future success:

> *"This [alignment] is becoming more important as we don't have the time and flexibility to be wrong -- no luxury of a do-over. Markets are competitive, capital is constrained, recruiting is hard; resources are scarcer and margins of error are smaller. It's too expensive to be out of step."*

Alignment occurs when the entire health sciences enterprise (e.g., the medical, nursing, and pharmacy schools, the physician practice plan, hospitals, the ambulatory care network) act in concert to achieve common vision and goals. Alignment is specifically inclusive of education and research (through the schools mentioned earlier).

According to The Chartis Group survey findings, overall alignment is realized by optimizing governance, strategy, management and economics. Fully integrated AHCs appear to have achieved the highest degree of alignment to date. Their integration has enabled them to successfully resolve many difficult organizational issues (i.e., "turf wars") and move forward with organizational coherence and fairly well focused strategies. Another subset of AHCs achieve significant alignment by optimizing two or three dimensions while ensuring that the extant dimension(s) do not damage overall alignment. Based on the results of the survey, optimizing one dimension does not seem powerful enough to drive alignment.



3.2. Assessment Focus for UNM Health Sciences: Governance

The Chartis Group was engaged to provide a formal assessment of UNM Health Sciences' governing structures taken collectively and not necessarily individually. For example, a specific assessment of the UNM Hospital Board of Trustees was not within the scope of the engagement. Following are some questions used to guide the assessment:

- Does the UNM Health Sciences reporting relationship through the various UNM Regents' Committees provide maximum support to Health Sciences in fulfilling its mission?
- Does the UNM Health Sciences organizational model for subsidiary clinical entities provide maximum support to Health Sciences in fulfilling its mission?
- Does the current UNM Health Sciences organizational model safeguard past progress and accumulated (and yet to be accumulated) material resources?

The UNM Health Sciences' commissioned assessment does not include a formal assessment of all four dimensions of AHC alignment as outlined earlier; however, the UNM executive leadership team has encouraged The Chartis Group to provide as much counsel and guidance as possible in the alignment dimensions of strategy, management, and economics as feasible without diluting the governance assessment or exceeding the budget.

Consistent with these guidelines, The Chartis Group has provided discrete recommendations to improve alignment and the probability of success that are not directly related to governance. While The Chartis Group has confidence in each of these recommendations, they should not be construed as being the product of a formal assessment.

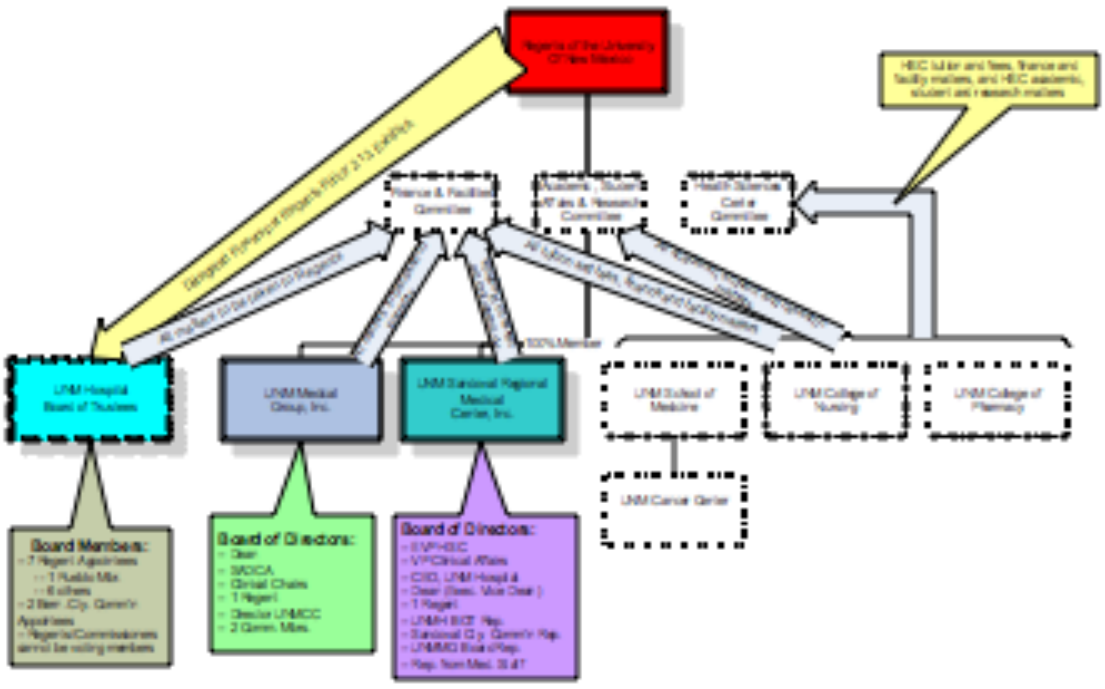
4. UNM Health Sciences Governance Assessment

4.1. Does the UNM Health Sciences reporting relationship through the various UNM Regents' Committees provide maximum support to Health Sciences in fulfilling its mission?

Scot Sauder, Senior Associate University Counsel, Health Law Section, provided Chartis with a schematic diagram (seen below) that displays, in a simplified manner, the governance relationships within UNM Health Sciences. Throughout Chartis' interviews and work, this depiction of governance relationships within UNM and specifically within UNM Health Sciences has been validated by key stakeholders.

The most important feature in the governance schematic is that all entities eventually are accountable to a single entity--the Regents of the University of New Mexico. This single point of governance and accountability is highly desirable. It makes irreconcilable differences between entities very unlikely. It increases the likelihood that a rationalized, governing set of priorities for the Health Sciences Center is possible. It provides that assurance that whatever seemingly intractable conflict arises can be resolved in a manner consistent with the long-term interests of the University of New Mexico.

Unfortunately, the HSC doesn't always experience the Regents in this rationalized and streamlined fashion. Each Health Science entity addresses specific issues (based upon criteria) to one of three Regents' committee for consideration: Finance and Facilities; Academic, Student Affairs and Research , and Health Sciences. A complex proposal for developing a new program would have characteristics that would likely require multiple considerations by multiple Regents committees. A new clinical program would have facilities requirements, research and academic requirements, as well as health science implications and as such would need to be reviewed by the three separate committees. As part of the review process, the proposed program would need to be disaggregated somewhat and packaged for each committee to appropriately match the presentation to the scope and stewardship of the reviewing body. A new program may appear to be somewhat a la carte--each committee weighing in on the validity and wisdom of the parts with separate guidance on whether to move ahead or not. In reality, the new program is closer to a package deal. The new proposed



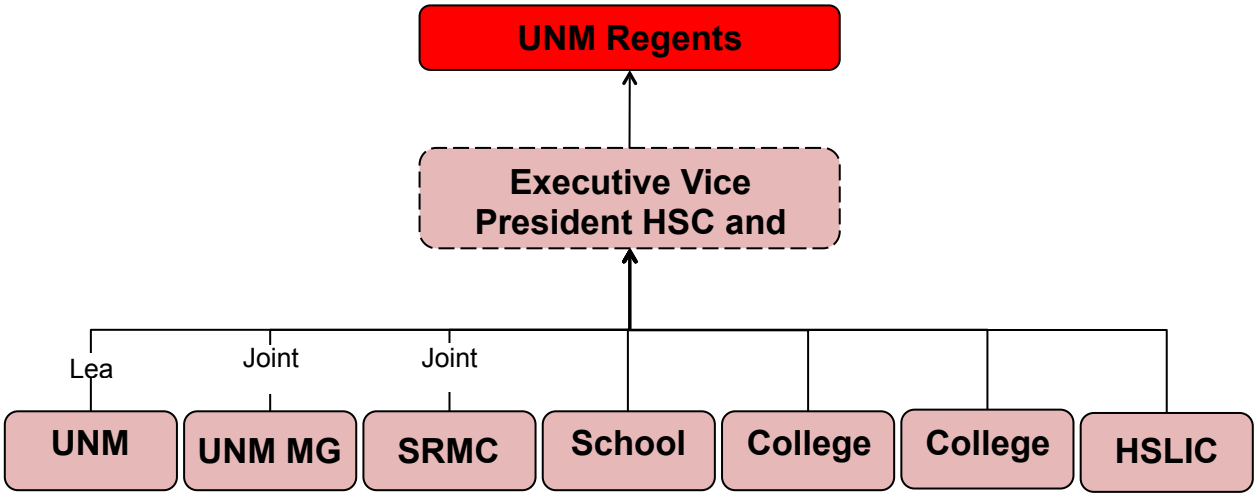
academic/education program will only work if the new clinical program is in place which is also only possible if the appropriate facilities are available.

Chartis was not made aware during its interviews of any proposed programs that were fully terminated due to the fragmented reporting relationship to the Board of Regents; however, great concern was expressed about how long the process took to successfully gain approval and how much work and how many interactions with approval bodies it took to actually get full approval for a new program.

For its part, the Regents of the University of New Mexico (all but one of whom was interviewed as part of the assessment process) weren't enamored with the current process either. Their concerns were the flip side of the Health Science Center's leadership: being a Regent was becoming too time consuming; there were too many committee assignments; and decisions took too long to make.

As well placed as UNM Health Sciences is in Albuquerque and greater New Mexico, a long and ponderous process for decision making represents a real and significant danger to the Health Science Center's future success. Non-academic health care providers are stiff competitors for patients. Taken collectively, their decision making processes are significantly faster than UNM HSC's. As a result, they can start later and still beat UNM HSC to the market. That is the formula to be a market laggard and not a market leader.

Finally, the existing governance model does not optimize the governing board role in the Health Sciences Center. The fragmentation of Regent roles with respect to the Health Science Center actually impedes the Regents' collective abilities to provide "Board Level" guidance to the executive leadership team. Chairs of successful private and academic hospital governing boards routinely devote 20-30+ hours per month working with the hospital chief executive and key community benefactors and stakeholders. These types of time commitments are not possible for Regents who must also govern the other parts of the University of New Mexico as well as, in most cases, maintain their private businesses and means of income. As a result, the Executive Vice President has become the vital linchpin to the HSC's success.



As designed and currently operated, the EVP has become a most critical success factor for the Health Sciences Center. The EVP develops the HSC vision and then ensures that each aspect of the HSC operates in concert with the vision. Ensuring harmony with the vision often means that the EVP must serve as Chair of each entity's Board (as in UNMMG and SRMC), as the executive overseer (as in the School of Medicine and the colleges of nursing and pharmacy), or as a key liaison to the Board (as in UNMH). Equally important, the EVP must also ensure support and resources for the HSC vision and strategy at the Regent level as well.

The evolution of the EVP into the described role has been extremely beneficial to the Health Sciences Center. If Dr. Roth's longevity in the role was guaranteed and if the HSC was going to remain at about the same size and complexity as it currently is, no changes would be necessary or even recommended. However, since HSC growth is desirable and inevitable and since life is filled with the unexpected, modifications to the

current governance and executive leadership models are responsible and necessary. The most tangible indicator that some changes are in order is Dr. Roth's opinion that the job is becoming "a little too much for one person." In addition, he has also questioned what would happen to the HSC if he were suddenly unavailable to lead it (colloquially expressed as, ..."if I got hit by a bus...").

Changes should occur in three areas:

- Strengthening the HSC governance model;
- Restructuring the relationships which the EVP is required to maintain; and,
- Building supportive executive leadership roles within the HSC

4.2. Does the UNM Health Sciences organizational model for subsidiary clinical entities provide maximum support to Health Sciences in fulfilling its mission?

As depicted in the last two graphics each HSC clinical entity (e.g., UNMH, SRMC, UNMMG) has its own corporate Board. Ideally, there would be fewer entities and fewer Boards. For example, it may be theoretically desirable to have an inpatient entity (inclusive of all hospitals and related physicians) and an outpatient entity (inclusive of all ambulatory care operations and related physicians). However, the lease with Bernalillo County and the requirements of the University Research Park Act make the entity and board rationalization impractical.

Thus, the key design parameters for ensuring HSC success with a "multiple entity organization model" are:

1. Develop a single, unified strategy such that each entity works in concert toward higher level HSC goals
2. Deliver consistent, high value, and seamless care at every entity or site of care
3. Develop the UNM HSC brand and drive appropriate compensation for health care services from payers
4. Increase the HSC's ability to develop and deploy capital resources for the ***best strategic use*** within the HSC

Practically, these four design parameters require that each entity board be part of and accountable to an integrated clinical enterprise--a "UNM Health System." The UNM Health System would be responsible to develop a health system strategy and operating standards/practices, brand itself, and deploy capital resources as required to execute the strategy.

The health system would form a comprehensive context in which each entity and its respective board would operate in synchrony with the overall HSC vision and strategy.

Without the formation of a health system, each board will feel the need to maximize its respective clinical entity (e.g., growth and profitability) without necessarily coordinating with its peers in the HSC. The inevitable tensions will fall to the EVP to manage. The word "manage" is chosen carefully because at this point the tensions would be structural and not subject to resolution.

The academic entities within the Health Science Center (i.e., School of Medicine, Colleges of Nursing and Pharmacy) do not naturally fall within the scope of this discussion because they generally do not have separate boards. The School and Colleges are directly accountable to the EVP.

4.3. Does the current UNM Health Sciences organizational model safeguard past progress and accumulated (and yet to be accumulated) material resources?

The clinical enterprise within the Health Science Center differs from most other aspects of a modern university. The obligation to provide world class health care twenty four hours a day for seven days a week has dramatic resource implications, for example: facilities and technology require very substantial and consistent capital funding to stay current; physician compensation must have a fairly strong correlation to private practice physician compensation to avoid a "brain drain" that diminishes UNM health care services; capacity growth may be required to meet community needs and service expectations even if other parts of the university are having budget reductions; finally the whole enterprise operates at the same intensity for twelve months a year--there is no summer slowdown as many colleges and departments experience. These differences (and many others that have not been enumerated here) mean that the requirements for success for the Health Sciences Center are not the same as for the University in general. Academic Health Centers must successfully compete with non-academic private health care delivery organizations in order to have *the opportunity* to fulfill their mission.

In general, the University of New Mexico seems to recognize the needs of the Health Science Center and has provided the latitude necessary to succeed. However, while latitude and accommodation help, they do not constitute Best Practice. The leading academic health centers in the United States have developed rather comprehensive and more effective organization models. The UNM HSC should be looking towards those models as a development guide.

In previous iterations, the Best Practice organization models involved forming a "university health system." The health system operated with a large degree of autonomy especially as related to control of financial resources, facilities, and patient care delivery. In most cases, a board was organized to govern the health system subject to high level oversight of the Regents. Health system formation works well for the clinical enterprise but it had the undesirable side effect of bifurcating research efforts/resources from the clinical enterprise and placing education in an uncomfortable tension between the two. Recently, the Best Practice has shifted to creating organizational identity and autonomy at the health science center level, inclusive of a health system. The University of Washington is a best practice example. "UW Medicine" incorporates the breadth of health sciences (i.e., education, research, and clinical practice). It has a Board that governs it. The President of UW is a key member of the Board but not the Chair. The Board members are highly successful people in Seattle. They understand that the purpose of the Board is to govern, make strategy decisions, and help executive leadership solve problems. Although it operates fairly autonomously, UW Medicine coordinates its plans with the University.

UNM should create an organization model for the HSC that is custom fit help the HSC to meet its market-driven requirements for success. At a minimum this model should:

- Firmly establish a "Health Science Center component" of the University of New Mexico separate and distinct from its main campus and branch campuses
- Encourage and enable the HSC to develop the management, administrative resources and structure to administer a complex organization with over $1.2 billion in revenue each year. It is envisioned that these resources would include (but not be limited to):
    - Dedicated Chief Financial Officer
    - Dedicated Legal Counsel
    - Comprehensive Human Resource function
    - Other resources TBD required for "HSC Mission Support"
- Redesign the HSC resource sharing partnership with main campus to focus more on scale-driven efficiencies

- Formally align the control of HSC financial resources within the HSC, inclusive of:
    - Legislative funding
    - Governmental grants
    - Clinical enterprise operating funds or profits
    - Gifts or other philanthropy
- Enable the HSC to address faculty and student body issues through a process and/or bodies that understand and reflect the interests of the HSC

Although the Chartis assessment has stressed the importance of greater HSC autonomy and creating a separate identity for the HSC, in our opinion the future success of both UNM and the HSC will be better served as a unified university. The question was raised several times during Chartis interviews (by interviewees) whether the HSC should be formally separated into a health sciences university in the model of Oregon Health Sciences University or the University of Texas Southwestern Medical Center. While these models have their virtues, until and unless the UNM HSC becomes much larger, the risks and potential downfalls outweigh the likely benefits.

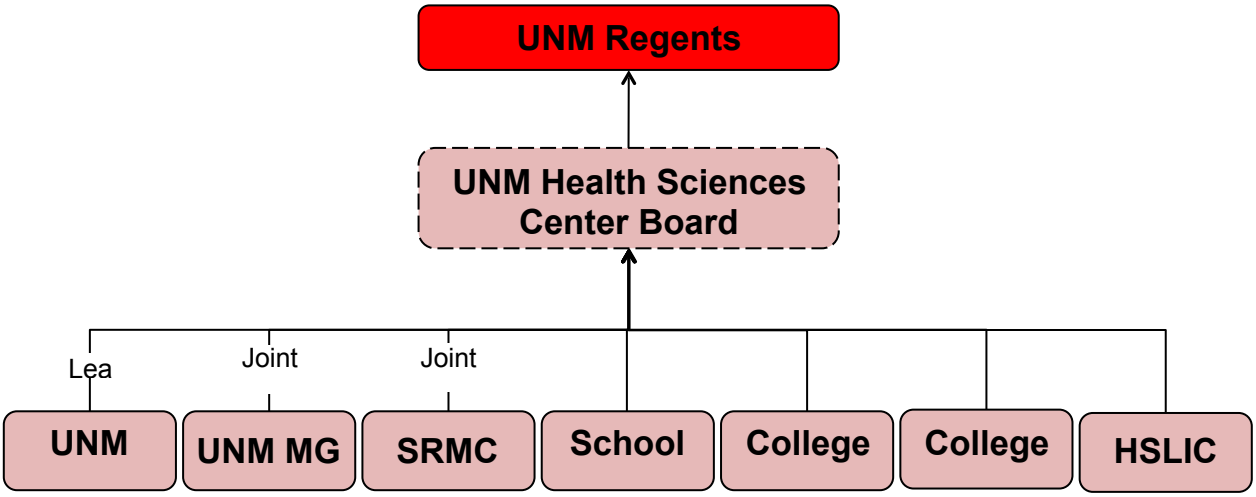
4.4. Summary Findings from the UNM HSC Governance Assessment

Specific recommendations will follow in sections five and six of this document. The findings of The Chartis Group assessment, stated at a high level, are that UNM and the HSC should:

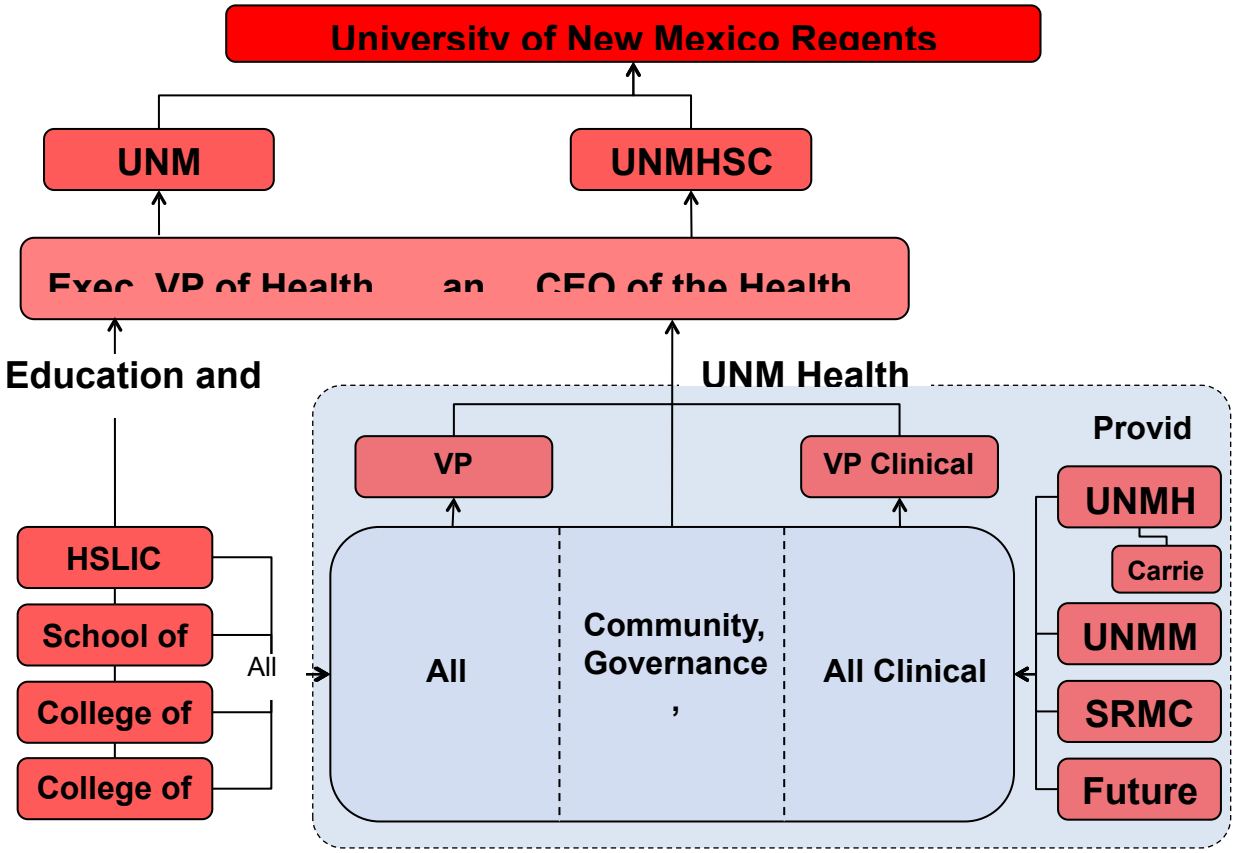
- Simplify, rationalize, and streamline the HSC interface with the Regents
- Align the HSC entity boards (i.e., UNMH, UNMMG, SRMC) with an HSC governing body and not directly to the Regents
- Integrate more tightly the Health Science Center's clinical enterprises with its academic programs
- Align the control of necessary and appropriate resources and infrastructure under the UNM HSC, inclusive of clinical profitability and legislative funding, for the advancement of UNM Health Sciences
- Strengthen the UNM Health Sciences executive leadership team

5. Specific Recommendations for Changes in the HSC Governance and Organization

1. Establish a Health Sciences Center (HSC) Board with delegated authority from the Regents, to govern all clinical and academic programs of the HSC
   - The Health Sciences Center Board will be directly accountable to the Regents
   - Three Regents will be HSC Board members
   - At least 3-4 additional community members (with appropriate skill sets) will be HSC Board members (nominations subject to Regent approval)
   - HSC items for Regent approval would be sent directly to whole Board of Regents as Consent Agenda items unless the Regent members of the HSC Board deem otherwise
2. Eliminate Health Sciences "assignments," outside of the HSC Board, for Regents
   - Eliminate the Regents' HSC Committee
   - Remove all Regents from subordinate HSC Boards (i.e., UNMH, UNMMG, SRMC)



3. Board Chairs for UNMH BOT and SRMC will be nominated by the HSC Board and approved by the full Board of Regents. The Board Chair for UNM MG will remain the Dean of the School of Medicine.
4. Create the UNM Health System –
   - Integrate all of the UNM clinical programs under a single UNM Health System
   - Require the EVP for Health Sciences to be the Health System CEO to assure fully integrated operations between academic and clinical programs
5. The EVPHS and CEO of the UNM Health System combined role effectively means that there is a single person that will hire, set performance plans for, and evaluate the performance of health sciences and system leaders
6. Eliminate the expectation that the EVPHS serve as the Board Chair and/or CEO for each health system entity



5.1. Keys to Success

While The Chartis Group is confident that the six "governance" recommendations will move the HSC forward and enable greater degrees of success, it is important to note that the recommendations come with their own keys to success. Adaptations to the recommendations may be necessary if one or more of the following keys to success cannot be met.

- Delegate the maximum power possible from the Regents to the UNMHSC Board and to its subordinate Health System Boards to govern UNM Health Sciences and Health System
  - Direct the entity-specific Health System Boards (i.e., UNMH, UNM MG, SRMC) to be accountable through the new Health Sciences Center Board
  - Raise the spending limit that requires Regent approval to be in proportion to the Health Sciences budget and the rather routine capital expenditures required to run a hospital
- Develop a capable and effective UNMHSC Board
- Treat the work of the UNM Health Sciences Center Board as “Consent Agenda” items for those items which the UNM Regents must approve
  - “Single-Track” the UNM Health Sciences Center Board work to the Regents
- Focus the UNM Health Sciences Center Board on mission, vision, and strategy and maintain the entity-specific Boards’ focus on high institutional performance (i.e., quality, service, operations, and finance)
  - Key functions of the UNM Health Sciences Center Board:
    - Strategic Planning
    - Long-term financial planning
    - Capital formation and budgeting

- HSC fund balance control and management
- Academic program approvals
- Health System wide policies (e.g., compliance, HIPAA, IT security)

5.2. Developing a Capable and Effective UNM HSC Board

Of the four identified keys to success, the development of a capable and effective Board for the HSC is probably the most important and potentially the most difficult to accomplish. Recent examples are etched in public memory of boards that failed in their fiduciary and organizational stewardships. Despite the very public failures, there are many more examples of governing boards that function effectively outside the glare of the media. These boards succeed where others fail largely because of the quality of the people involved and the collective breadth of experience they bring to the organization. In addition, boards and board members require training to ensure they understand the stewardship with which they are entrusted.

The table below is provided as a guide to the collective requirements an HSC Board would need to succeed.

Collective Talents, Experience, and Resource Requirements

○ **Dedicated Time**	Most academic health center boards meet monthly (8 hours/month)
○ **Deep Community Ties and Experience**	Board members need to be able to rally community support and resources for UNM HSC
○ **Constructive Critical Thinking**	Board members need to critically assess the issues and recommendations brought before the Board for action
○ **Health Care Industry Experience**	UNM HSC leadership needs good strategy and tactic counsel from the Board about health care specific questions and opportunities
○ **Academic Experience**	Board members need to bring harmony and balance to the academic, education, and research missions of UNM HSC
○ **Organizational Leadership Experience**	UNM HSC leadership needs good decision making counsel from the Board

There is a real tendency when forming boards to use a "constituent model" to find candidates. For example, "who will represent _____?" Just fill in the blank with whatever constituency is desired: doctors, research faculty, nurses, students, or any ethnic group. This type of board will struggle with the HSC stewardship because the board members will see most issues through the lens of "how will this affect my constituents."

The most effective candidates will bring specific skills to the HSC Board, they will have a demonstrated record of unimpeachable ethical behavior, and they will have a curious and intellectually piercing mind that will help the HSC Board collectively understand issues from multiple perspectives.

Stated as clearly as possible, the ultimate success of the HSC governance reorganization will likely hinge on the quality of the governing board that is ultimately empowered.

6. Recommendations to Realize Maximum Alignment

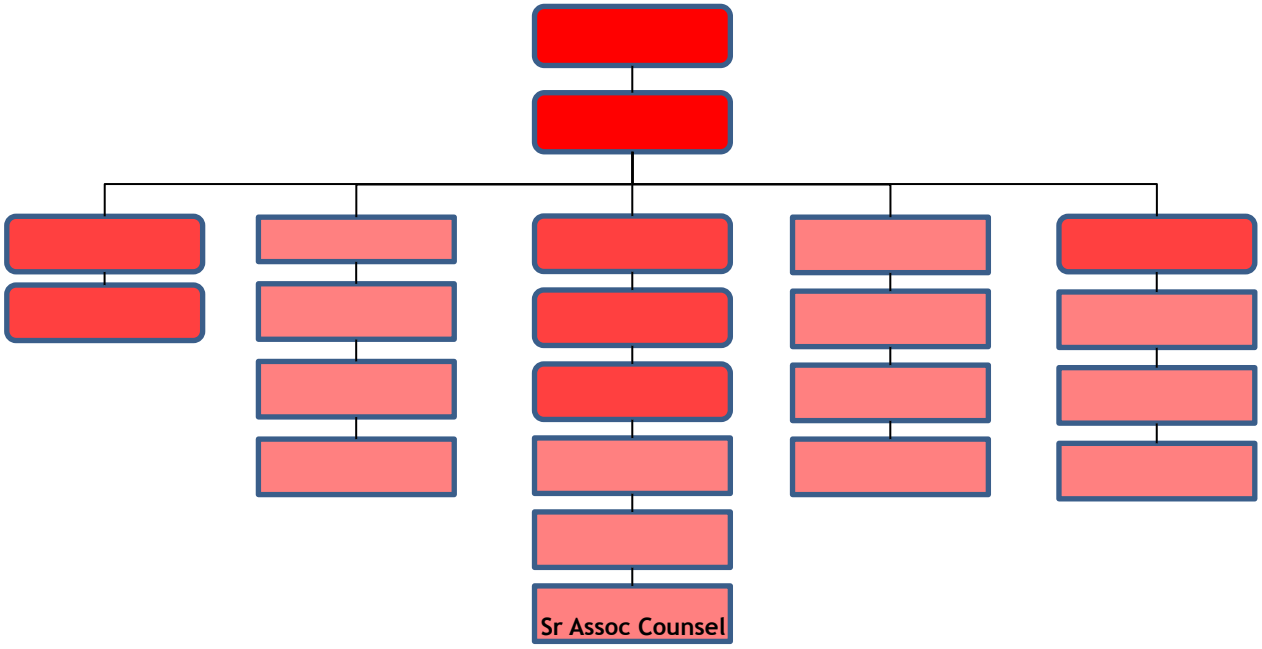
While the major findings and recommendations of the governance assessment have been covered in sections four and five of this document, Chartis is making some recommendations that do not fall within the bounds of governance. As outlined in section 3.1, Chartis' experience and research demonstrates that maximizing alignment in one of the four key dimensions (i.e., strategy, governance, management, and economics) is not sufficient to drive performance in a modern academic health center.

These recommendations do not occur in the context of a comprehensive assessment and they are not intended to form an exhaustive list of recommendations. However, they are significant and they will support the governance changes previously recommended.

6.1. Management/Systems

6.1.1. EVP Span of Control and the Management Organization Chart

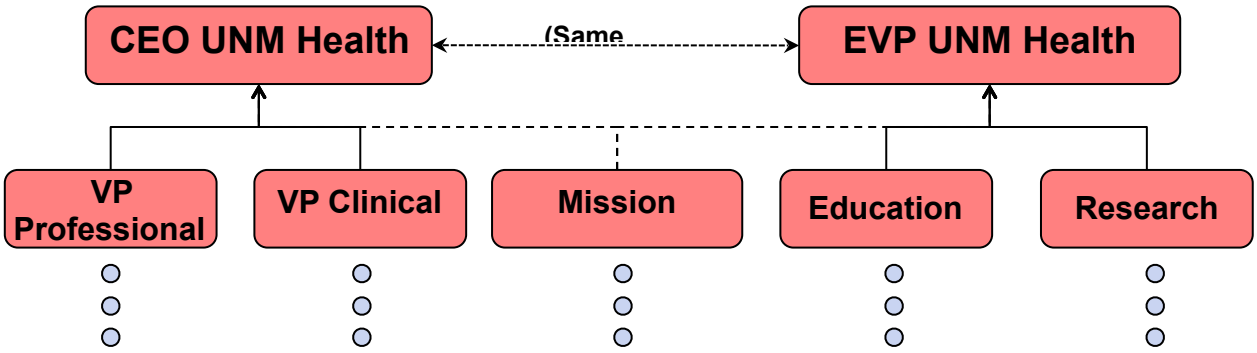
As described in section 4.1, the scope and demands on the role of the EVP for Health Sciences is becoming too much for one person. The governance changes have helped to restructure the relationships which the EVP is required to maintain. For example, the EVP is no longer required to be the Chair of SRMC or other HSC entities. However, the "management" side of the EVP role has not been restructured yet. Below is a organizational chart representation of the EVP direct management responsibilities.



As currently structured, the EVP has at least eighteen direct reports. (This does not count the people that report to him as the Dean of the School of Medicine.) The breadth of topics covered by the eighteen people is breathtaking. The total management structure is very flat which is often seen as desirable; however, it also leads to an overall weaker executive team than needed to support a complex organization that has more than $1.2 billion in revenue each year.

Chartis recommends developing a group of leaders (e.g., Practice Leaders) that are charged to manage large parts of the HSC enterprise under the guidance and supervision of the EVP. In addition to the direct reports envisioned below, there will be a small number of additional direct reports that do not lead or manage but

perform specific functions that should report directly to the CEO and/or EVP. Legal counsel and compliance are the two most straightforward examples.



In the end, the EVP should have no more than ten people directly reporting to him. This recommendation should not be construed as constraining the ability of the EVP to provide guidance at all levels of the HSC. If done correctly, it will expand his ability to give input and guidance. It will lessen his role in managing work processes or in following up to make sure that work was completed. That role would fall to the practice leader.

The development of Practice Leaders also supports the HSC need (and Chartis recommendation) to strengthen the HSC executive leadership team. As each of these people grow into their expanded roles, the collective executive team capability will increase. In addition, these Practice Leaders, eventually, should be able to operate the HSC under an interim leader for quite awhile if it were ever necessary. Finally, at least two of the Practice Leaders should be potential candidates for future succession to the EVP role. Preparing future executive leadership is considered a corporate best practice and necessary even if the leadership role is eventually offered to someone outside the university.

6.1.2. Infrastructure and Management System Rationalization

The advent of the "UNM Health System" will require dramatic changes in operating strategy and in management systems. For example,

- Standardization of information system policies, procedures, and especially SYSTEMS/SOFTWARE will be necessary for the Health System to operate efficiently and to be clinician friendly;
- Development of a rationalized HSC infrastructure—every resource should be considered as a possible Health Sciences Center or Health System resource (as opposed to an entity-specific resource). This may mean developing a shared, central resource within the HSC or the Health System that can serve all entities well (e.g., information technology, human resources, compliance, finance…)

6.1.3. Increased Inter-Organization Accountability

As resources (capital and labor) are increasing deployed according to a comprehensive HSC strategy, outcomes/results will need to well documented and reported because parts of the HSC will be asked to either delay or forgo their plans and ambitions to facilitate strategy execution. The implicit covenant is that, in return for forbearance, the HSC will become stronger and more successful. At some day in the future, those who have sacrificed in the near term will have access to additional resources.

In healthcare, such accountability is rarely expected and much too often resources are expended without realizing a return. As management systems develop and improve, quantitative tracking and accountability will be required. If there is no return on investment, keeping the implied covenant will not be possible and key people within the HSC will depart.

6.2. Economics

Financial incentives can be usefully compared to gravity. It may be possible to overcome the force of gravity temporarily and levitate above the ground but it eventually succeeds in everyone bringing back down to earth. So it is with financial incentives. While the excitement and momentum that a good leader can build can often motivate an organization to attempt change, misaligned financial outcomes and incentives are the most common cause of lost momentum and eventual abandonment.

In most academic medical centers, the "funds flow" from the hospital to the physician group constitutes the largest financial relationship between the hospitals and the practice plan. The amount of money involved is substantial--usually more than $30 million per year for even the smallest AHCs and up to $180 million in the largest and most successful AHCs.

Funds flows and the corresponding physician compensation plans are probably the most commonly misaligned financial incentive within academic medicine. Chartis did not assess in any way the funds flow model or alignment at UNM but past experience suggests that it should be reviewed to ensure that:

- The basis for the current funds flow from UNMH to UNMMG/SOM should be codified into a performance algorithm
- Funds flow payments should be translated into a volume sensitive outcome. For example, medical oncology may be due $500,000 per year in funding support. That money could be funded in 12 equal payments to the department or it could be translated into a volume-sensitive outcome--the work RVU. In that case, medical oncology might be paid $10/billed work RVU. In the flat payment method, there is no upside or downside to the medical oncologist. In the volume sensitive payment methodology, the medical oncologists can do better or worse than expected based upon their production. Which gives better alignment of financial incentives?
- Compensation systems need to be aligned with the Health System's financial outcomes as well as with the hospitals and medical group. It is fairly common for the health system to be striving to grow patient volumes and to have the physician compensation model provide subtle but clear disincentives to grow their individual practices.

6.3. Strategy

The impact of the HSC strategy has already played a significant role in developing the governance recommendations. The implications of the thoughts presented in section 2.2 are relevant here. The organization and governance model needs to be scalable in anticipation of a bigger HSC with more entities spread over a geographically dispersed region.