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New research and expert opinions in the area of hospital and health system governance.

What's Inside

→ Healthcare Leaders Are Treating Symptoms of Reputational Risk, Not Causes
By Nir Kossovsky, M.D., CEO, Steel City Re

→ Board Best Practices for Assessing Strategic Options
By Gary Herschman, Esq., Member and Director, Epstein Becker & Green, and Jeffrey Sommer, M.P.P., Managing Director, Stroudwater Associates

→ The "Discriminating-Patient Paradox": Policies for Addressing Patients with Discriminatory Physician Preferences
By Anna Timmerman, Partner, Dawn Stetter, Counsel, Zoe Simon, Associate, and Michael Paluzzi, Associate, McGuireWoods, LLP

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Healthcare Leaders Are Treating Symptoms of Reputational Risk, Not Causes

By Nir Kossovsky, M.D., CEO, Steel City Re

Healthcare is an industry everyone feels connected to and familiar with. When a misstep or a mishap occurs in the delivery of care, it affects people's lives and it invariably generates public attention—particularly in an era when social media enables small numbers of individuals to devastate corporate or institutional reputations.

Reputation is a vital asset to healthcare organizations. It influences patients to seek services, professionals to supply labor, creditors to issue debt, philanthropists to donate, and regulators to apply a soft touch. Reputation also reflects on an institution's leadership, in that reputation risks—the perils of economic damage from angry disappointed stakeholders—can become a personal matter for the C-suite and board.

But the pathophysiology of reputation risk is often misunderstood by directors and their healthcare institutions.

Reputation risk is not merely a peril of negative media, or more narrowly, a low ranking on *U.S. News and World Report*. Rather, it is a state of being where a gap exists between expectations and actual performance. It encompasses enterprise-wide operational and governance perils that should be treated by risk managers with board oversight. It requires carefully defining the organization's stakeholder groups and understanding their expectations. It also requires recognizing that those definitions and expectations require constant monitoring and can change at any time.

One day, physicians are prescribing a fully FDA-approved medication with gusto; the next, you're portrayed as partially to blame for a national addiction crisis. At some point, who the stakeholders were—and what they expected—changed. Addiction had become a crisis in America, opioids were part of it, and healthcare organizations and pharmaceutical companies found themselves in great reputational peril.

These are not situations that can be addressed with savvy marketing. Marketing is not risk management. Aspirational, feel-good marketing campaigns will not protect reputations from the hazard of angry, disappointed stakeholders whose expectations have not been met.

Investing institutional resources in treating a symptom of reputation risk—negative media coverage—without addressing the causes, actually puts reputations at further risk. In the corporate world, boards are learning this lesson the hard way. Nine out of 10 S&P 500 companies cite reputation as a material risk in their public filings, but most put the responsibility of reputation risk management into

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the hands of their marketing departments. The result: according to the *Financial Times* specialist service, "Agenda," 25 complaints alleging, at least in part, board-level responsibility in connection with corporate reputational damage were filed or amended in federal court in the trailing 12 months from June 2019. Only six cases were filed in the preceding year.

Activist investors and plaintiffs' lawyers know when stakeholders have had their expectations raised unrealistically—and corporate leaders are becoming the targets of these litigations and proxy fights. Healthcare leaders face those same risks.

Take for instance, the headline about colleagues across the pond: "Patients put at risk by 'aggressive' treatment at Great Ormond Street [Hospital]" (GOSH).[1] It's a headline any healthcare institution that values its reputation would dread. The exposé alleged that for seven years the "children's hospital unnecessarily gave patients potentially dangerous drugs, subjected them to invasive tests, and wrongly diagnosed them with a rare allergy" and that its own "staff and other NHS medics believe the gastroenterology team over-investigates and over-diagnoses." Three months later, the hospital was in the news again for diverting health service funds to pay for reputation management lawyers hired to respond to the previous story.[2]

1 Melanie Newman and Denis Campbell, "Patients Put At Risk By 'Aggressive' Treatment at Great Ormond Street," *The Guardian*, April 14, 2018.
2 Jim Waterson, "Children's Hospital Spent £130,000 on 'Reputation Management' Lawyers," *The Guardian*, July 24, 2018.

But *The Guardian's* exposé merely amplified the gap between stakeholder expectations and experience. By responding to the exposé, and not stakeholder expectations, the hospital's media-centric marketing effort, and involvement of lawyers, surprised a wider range of stakeholders including donors and possibly regulators. This surprise—a response to an unexpected experience—triggered yet even more media amplification and a third exposé linking the hospital's crises to other examples of charities questionably using funds in reputational crisis situations.

The situation GOSH found itself facing is one almost every healthcare delivery system today in the U.S. can appreciate. Patients expect high-quality care. A clinical team with the potential to go rogue can be a devastating shock to those expectations. If revenues sink as a result, the burden will be compounded by the cost of capital, separating personnel, renegotiated contracts, financial restructurings, and a decline in patients' experience.

What's necessary is not the kind of story a marketing team usually tells, but rather a story about governance, enterprise operations, and risk management. It is a story told through reputational warranties and defenses, such as bonds and insurance products with real risk transfer, based on third-party analysis of corporate systems, processes, and governance. The expressive value of such analysis and coverage, when underwritten based on sound principles, provides assurance that healthcare leaders and their provider system's reputation is strong, resilient, and less likely to sustain serious damage from attacks. And it makes them less of a target to regulators and litigators.

Just as a doctor promotes the overall health of a patient by using knowledge of disease pathophysiology to treat the root causes, not just the symptoms, healthcare institutions that invest

Key Board Takeaways

- **Have processes in place to protect against reputational damage.** Lawsuits against board members citing reputational damage have increased, as have forced board departures in the face of corporate controversies. It is board members and senior executives who will be held personally accountable—legally and in the court of public opinion.
- **Define the organization's stakeholder groups and make sure you understand their expectations.** Those definitions and expectations can change at any time, so this should continually be monitored.
- **Ensure reputation risk is managed by risk managers.** Risk managers already work across organizational silos to identify, minimize, and protect against enterprise risks. Your risk managers should understand the peril's sources, the potential costs, and the full spectrum of operational and financial strategic options to mitigate the losses from disappointed stakeholders.
- **Assess whether your organization is engaging in unrealistic, aspirational marketing.** This can increase reputation risk. The more stakeholders expect, the greater the disappointment and anger arising from institutional failure.
- **Remember that marketing isn't risk management.** Marketing isn't good reputation risk management nor reputation insurance, but good reputation risk management backed by reputation insurance is powerful marketing.

in reputation risk management as a strategic enterprise-wide risk, and not just a marketing problem, will see a return on investment through lower cost of debt capital, lower cost of operations, and overall enterprise health.

The Governance Institute thanks Nir Kossovsky, M.D., CEO of Steel City Re, for contributing this article. He can be reached at nkossovsky@steelcityre.com.