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DAILY BRIEFING INTERVIEW

Lessons from the C-suite: Rod Hochman, CEO of Providence Health & Services

Why One CEO Wants His Staff to Be Disruptive

This interview with Rod Hochman, the President and CEO of Providence Health & Services, was conducted by Eric Larsen, Managing Partner, and condensed by Juliette Mullin.

Q: How did you transition from physician to hospital executive?

Hochman: Here's the thing: You never make the switch. It's a lifelong process that you go through.

Thirty-five years ago, I graduated from Boston Medical School. I'd known I wanted to be a doctor going back to when I was in high school, but you go through this whole process figuring out how you can best serve as a physician.

At the **Guthrie Clinic**, we had to run our own business. We had some professional managers, but clinicians there are managers, so I played a significant role in operations and management early on, and ensuring that our resources were effectively supporting the care we provided our patients. I was the youngest board member in the history of the Guthrie Clinic and they had a very democratic process: You got one vote for every year you were at the clinic.

So at a very early age, in my late 20s, we made some tough decisions that I learned from. That teaches you more than getting your MBA.

The progression from being a physician to being a CEO, for me, was organic. Every day, I was both a physician and executive leader; and I was lucky to have mentors and colleagues who were willing to say, "OK, let me give you a chance at doing that."

What an Aspiring Clinician Leader Should Know: A Few Words of Advice

Q: What advice would you give today to an aspiring physician leader?

Hochman: I always like to think in terms of clinician leaders. We even changed our strategic plan at Providence Health & Services: We used to talk about great relationships with physicians, but now it's about our relationship with clinicians. That's our nurses, our pharmacists, our physician assistants... It's all the people who touch patients and determine their direction of care.

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So I think for clinicians who are asking, "Ok, how do I move on to the business platform and leadership side of health care," the response is: What are you doing to prepare?

It's different today than it was 20 or 30 years ago. Today, I'd recommend to all of them: You've got to get your executive MBA. You've got to punch that ticket in some way.

Then what you need to do is be in an organization with an environment that's willing to put you into jobs and positions so you can hone your skills. You need to be able to run a clinic, or be able to direct a program, or be part of a strategy council. In other words, you need to be in an organization that understands the necessity and value of developing physician and clinician leaders.

Also, get a mentor early—really early—on in your career. Maybe one, maybe two, maybe three.

Some of the mentors that I've had are from leadership consulting firms and some are people like [Dignity Health CEO] Lloyd Dean. I've also always tried to have CEO mentors that are outside of health care because they have a unique perspective. I keep around me a council of probably five or six different people who I can pick up the phone, talk to, and say, "Can you help me think through this?" At an early age, get some of those people around you who can help you make decisions. And, as you advance in your career, provide that same mentorship to clinicians just starting out.

Finally, have a willingness to take on a lot and realize that you're going to have to do some grunt work along the way.

Market Consolidation: It's Inevitable

Q: You have more than 30 years of M&A experience in health care, and you've been quoted at length on consolidation across the industry. What are some of the lessons you've learned from the Providence and Swedish Health Services affiliation, and how would you universalize those takeaways for M&A across the industry?

Hochman: Some things are inescapable forces. The volume shift from inpatient to outpatient care—it's going to continue, you can't stop it. Digitization—not going to stop. The need for transparency in health care—not going to stop. The change in the roles of doctors, nurses, and clinicians are going to continue.

These are almost inevitable processes—if you think you can ignore them, you're going to become extinct. One of those is consolidation. If you look at the history of every other sector of the economy, it's been a natural thing. Health care has resisted it. It resisted it the same way it resisted digitization, but it's inevitable.

A third of the hospitals in the United States are going to be in the red; they're there already and it's going to get worse. CMS, commercial payers and employers were already moving down a path regardless of health care reform to reduce costs while creating more expectations around performance. That's putting tremendous pressure on health systems, hospitals and the traditional organization to provide better, more accessible care at lower reimbursement levels.

The response has to be well-thought-out partnerships. It's an inevitable process. The question is, can you think about it the right way?

In most efforts of consolidation, people don't do the work on the front end.

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At Swedish, we went through a very thoughtful process of working through the whys, the whats, and the whos. We had to do it, but we also wanted to do it for ourselves because we wanted the discipline around saying, "Are we going to deliver for the community what we said we were going to do?"

Two years later, I think we've hit absolutely every goal: Tremendous savings for the community by reducing hospital-based outpatient services by an average of 35 percent; savings of more than $240 million for Swedish; and intellectual talent that flows both ways.... That is a good partnership.

It doesn't matter that Providence is a Catholic health system and Swedish is secular—we can have different traditions but still have a common mission to serve our communities and a core strategy to create healthier communities together. Our affiliation model allows us to maintain our identities while still working together to reduce administrative duplication and increase clinical collaboration.

Q: HCA is now at $33 billion in annual revenue. Ascension is $22 billion. You guys are close to $12 billion. How big is big enough right now?

Hochman: It's not just about the size; it's about the relevancy for the patients and communities that you serve. We believe that to serve the communities that we are in, contiguous growth makes sense and we have to have market relevancy.

We're in five western states and that's where we see our footprint. Our focus has been innovation over scale. We use the words standardization and innovation, and we want to do that over five states.

We brought together 130 neurologists and neurosurgeons from our five states—independent and physicians that were employed at Providence. We said, "You redesign neurosciences and neurosurgical care for us." Guess what happened? They started making the tough decisions.

Our secret sauce at Providence is this type of expert-to-expert collaboration, where we're going to take folks from across the system, bring them all together and watch magic occur. We want to do that in the neurosciences, musculoskeletal, heart, moms and babies, and cancer. For primary care, our clinics are working together to redesign the primary care model to keep our populations healthy and deliver a consistent experience across our five-state system.

The other thing we've done at Providence is that we've said that we will standardize our business practices across our system. That's the only way we will drive value.

Transitioning Toward Care Integration: Disruptive Innovation

Q: Leading hospitals are striving to become more nimble, across-the-continuum organizations. As an acute care-anchored system, how do you think about integrating across the health care continuum?

Hochman: At Providence, we talk about population health and we talk about an "N of one" at the same time. They're not mutually exclusive. You need to really understand the needs of the populations you are serving. A lot of them need some individual time and attention and most of that is care outside of the hospital.

Hospital care will become more centralized; I think smaller hospitals will become ambulatory centers. We're investing a lot in telehealth, home health, medical groups, and every intersection that helps you really manage care.

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But there is a shift in the care setting that we see for patients. We see more patients in our clinics than in our hospitals; in fact five million visits annually.

That's a big change in terms of the resources and the people that you need. We're changing the metrics for the organization; number of lives served is a really important metric and last year Providence served 2.5 million unique patients across our system.

I use the analogy that iconic companies can go out of business. Kodak stayed on film too long, they didn't think about images. And where's Blockbuster? For those of us in health care, if you're not thinking that way, you're going to get lost.

Q: Disruptive innovations can overpower these seemingly too-big-to-fail organizations. How should hospital leadership tackle these innovations head on?

Hochman: One of the ways we're trying to drive that direction is finding folks that can help us disrupt the status quo. Our new head of strategy and innovation, Aaron Martin, comes from Amazon and was involved in creating the Kindle. So here's the company that upset the book business by becoming online booksellers, and then goes ahead and creates the Kindle, which disrupts their online physical book business. We think we can do some of that at Providence.

We think good health care organizations should look outside themselves for how to create a better health care system and ultimately healthier communities.