

Healthcare Trends - 2015

By Doug Smith, MBA, MHA and Christine Ricci, MBA, RN

Every year B. E. Smith analyzes its surveys of more than 300 healthcare executives, partners with AHA on a thorough environmental scan and reflects upon the most crucial trends expected to impact healthcare leaders throughout 2015 and beyond. Some trends are prevailing from recent years, showing their long-run persistence. Others are emerging and gaining momentum. The following nine trends deserve top of mind attention in executive decision-making and strategic leadership throughout 2015.



Cost Savings vs. Quality Care

Debate continues about whether, after years of attention to cost-cutting in all aspects of healthcare, a pivot to heavy concentration on quality is needed. Are the two demands at odds?

There is little abatement in aggressive cost cutbacks. As the AHA Environmental Scan notes: "Providers will be under tremendous pressure due to lowered reimbursement rates and increased patient volumes from health insurance exchanges and expanding Medicaid rolls. Some health systems are approaching the challenge by trying to reduce costs by 20-30% overall."¹ The fundamental alteration of the healthcare business model will continue to drive such reductions.

Yet care quality is equally demanded, and healthcare leaders recognize they must focus rigorously on both cost and quality, with the only way to bridge the two being devotion to value. This term is being defined as "delivering the best possible outcomes at a given level of cost. We call this competing on outcomes."² Such

competition moves away from simply seeking the lowest cost or market pricing power.

Increasing Volume, Variety and Complexity of Affiliations

Organizations pursue the value equation within a changing and often unclear healthcare environment. The uncertainty is borne out by a recent B. E. Smith executive survey that revealed a split between the 44% Confident or Very Confident in outlook for the year and the 47% who hold an Uncertain or Very Uncertain outlook.³

Healthcare leaders are responding with stepped-up pursuit of a wide range of alignments that include horizontal scale increases via hospital mergers and acquisitions (M&A) and vertical integration of physician practices, ambulatory centers, post-acute providers and others. Some are undertaking even more transformative moves that may be harbingers of the future: embracing risk-shifting by becoming payers as well as providers. PricewaterhouseCoopers estimates that 50% of health systems have applied or intend to apply for an insurance license.⁴

¹ "American Hospital Association Environmental Scan 2015." *Hospitals & Health Networks*, September 2014.

² Boston Consulting Group, quoted in AHA Environmental Scan.

³ B. E. Smith Executive Survey, September 2014.

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All of this realignment can create ever more complex organizations, which leaders must work to simplify. Noted management consultant Adrian Slywotzky has called healthcare delivery “hassle map heaven,” warning the industry to adapt and be truly customer-centric.

Migration of Care Outside the Hospital is Accelerating

A parallel movement to value and realignment is a shift to caregiving outside the four walls of the hospital into various ambulatory entities such as urgent care centers and stand-alone EDs, as well as greater reliance on post-acute settings such as home care and long-term acute care providers. More surgeries are now performed outpatient than inpatient, and hospital ownership of free-standing ambulatory care centers has grown 27%.⁵ Brian Silverstein, M.D., of research firm Sg2, observes that the hospital profit base 10 years ago was 64% inpatient and 35% outpatient. “Today, that’s flipped,” he says.⁶

Driven by the emerging population health movement, telemedicine is also booming. Video consultations are projected to grow from 5.7 million in 2014 to 130 million by 2018.⁷ Geisinger has found that telemonitoring of patients “improved the efficiency of care managers and delivered a 3.3 times return on Geisinger’s investment.”⁸

This migration does not represent simply tinkering with the care delivery model. It is a response to far more disruptive forces. Non-traditional healthcare clinics are growing due to accessibility and convenience. Urgent care centers have become a \$13 billion market⁹ and the rise of retail clinics in drugstores and other locations has been dramatic, doubling between 2012 and 2015. The recent rebranding of CVS to CVS Health sends a clear directional message from this self-described “new entrant.”

Healthcare Consumerism has Arrived

Most of the trends described are fueled by - and require - far more active consumer participation in the process than has traditionally been the case. While the rise of consumer power has been predicted for many years, it now appears to be here in force. Newly insured individuals and the spread of high-deductible plans are driving more customer awareness of healthcare delivery options, further fueled by greater market price transparency.¹⁰

Additionally, aging “baby boomers” are healthier, better educated and more accountable for their well-being. This important population will insist on being involved in their own care and their patient rights.

Altarum confirms the trend: “Similar to prior years, this survey finds strong evidence that consumers want a seat at the table in decisions about their health. Nine out of 10 consumers prefer to be in control of medical decisions, while 64% take steps to learn about their health condition instead of relying solely on the doctor for information.”¹¹

Population Health Driving Communities of Service

Beyond the move to outpatient care, alignments and partnerships are extending to very non-traditional delivery settings such as soup kitchens, Red Cross facilities and non-governmental organizations. These innovative approaches are being driven by the substantial interest in population health. They are motivated by the recognition that stronger preventative medicine and wellness programs are needed and will succeed if they meet individuals at their locations and states of readiness.

This emergent trend is creating true “communities of service” designed to keep patients out of the hospital and leverage post-acute care management. It is a model that optimizes what an observer described as the essence of population health: “customized coordinated care.”¹²

Changing Environment Creating New Leadership Competencies and Compensation

Leadership is being heavily impacted by the altering landscape, creating new success requirements. A particularly notable trend is that CEO turnover is on the rise, reaching its highest level in 2013: 20%.¹³ Retirements, hospital M&A and the pressures of change are all contributing factors.

B. E. Smith’s research suggests the consequences of CEO turnover can be far-reaching in many organizations. When asked which executives are likely to leave after a CEO departure and which initiatives are most affected, respondents indicated:¹⁴

⁴ Gary Ahlquist, Minoo Javanmardian, Phil Lathrop, and Amika Porwal, “Several hundred health networks will become payors,” *Strategy&*, June 20, 2014.

⁵ *Modern Healthcare*, June 23, 2014. See also a study by Kaufman Hall finding that “inpatient utilization rates per 1,000 declined across all age groups, averaging a 5 percent across-the-board drop.” R. York, K. Kaufman, M. Grube, “Where have all the inpatients gone?” *Health Blog*, January 6th, 2014.

⁶ Kara Olson, “Outpatient Outlook,” *HealthLeaders* online magazine, 2014.

⁷ Parks Associates forecast quoted in *mHealthNews*, August 26, 2014.

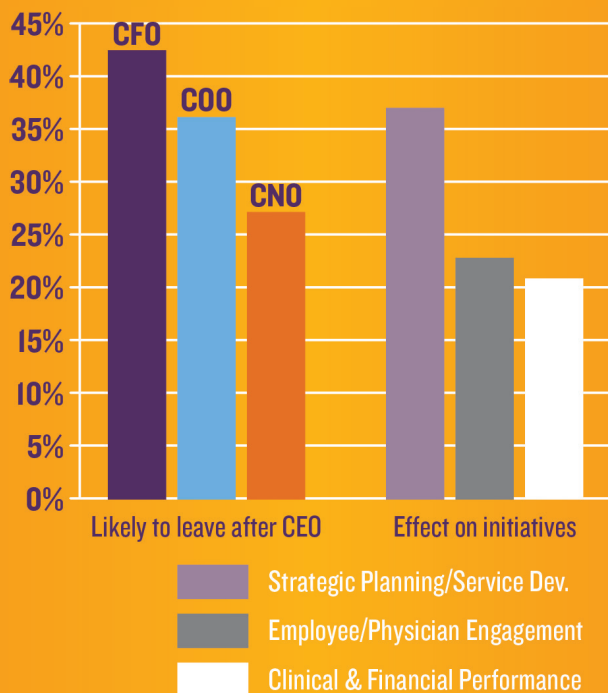
⁸ Christine Kern, “Telemonitoring Provides 3 to 1 ROI,” *HealthIT Outcomes*, Oct. 14, 2014.

⁹ IBIS World Urgent Care Centers report, 2012.

¹⁰ *AHA Environmental Scan* cites growth in percentage of workers with HDPs from 4% in 2006 to 20% in 2013.

¹¹ Altarum Institute, 2014 Survey of Consumer Health Care Opinions

Effects of CEO Turnover Survey Results



Given this substantial impact, it benefits organizations to evaluate several key strategies:

- Utilization of seasoned interim leaders can bring immediate stability at the top as well as help groom a successor.
- Development of leadership skills that reflect the changing demands and need for broad leadership integration, including:
 - Clinical integration, care management, business intelligence and purchaser relationships.¹⁵
 - Adopting an increasingly community-wide or regional perspective to promote wellness and prevention strategies.
 - Outstanding collaborative skills to build teams that can operationalize strategic plans across aligned entities and induce significant change.

Executive compensation is adapting to the new leadership realities as well, albeit somewhat slowly. B. E. Smith continuously monitors the compensation landscape. Over the past year, pay raises in the executive suite ranged between 2% to 3%, with CEO increases slightly higher. Consensus forecasts average 2% for 2015.

There is clear movement to alignment of compensation with the performance-based care model. Despite progress, though, 43% of surveyed executives say their organization has yet to match incentives to key values such as cost containment, patient engagement and clinical outcomes.¹⁶ Such changes will accelerate in 2015 and beyond. Experimentation with compensation typical in other industries is also occurring. Examples include stay bonuses to promote project completion or complete merger transitions and flexible, metrics-based bonuses to motivate individual goals.

Organizations Focusing on Succession Planning and Emerging Leaders

Given the C-level turnover and the urgency to promote the skills necessary to thrive, healthcare organizations are increasingly training their

sights on two interrelated initiatives: succession planning and development of emerging leaders. The former is overdue, as 64% of executives still report no succession program in place.¹⁷ With at least 40% of CEO hires resulting from internal promotion,¹⁸ the need for a more formal succession approach is desirable. Some hospitals are turning to outside advisors to help build customized programs.

Leadership development is about more than identifying the next-in-line. Strategic organizations are devoting attention to younger and emerging leaders, realizing the need to build a strong bench in the face of an aging workforce and a younger generation that may need new incentives to seek leadership roles.

Recommended education and emerging-talent development efforts include:

- Executive coaching and one-on-one real-time mentoring
- Leadership development programs tailored to an organization's specific needs
- Regular competency assessment

¹² Jenkins and Neuwirth, Carolinas Health System, presentation at American Society for Healthcare Human Resource Administrators (ASHRAA) convention, 2014.

¹³ ACHE data quoted in *AHA Environmental Scan*.

¹⁴ B. E. Smith executive surveys, 2014

¹⁵ Charles Kim, quoted in Karen Wagner, "Core Competencies for a Changing Healthcare Environment," *HFM Web* August 01, 2014.

¹⁶ B. E. Smith survey, 2014

¹⁷ B. E. Smith survey, 2014

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Forecasts suggest over 75% of physicians could be employed in hospitals and systems by 2020.

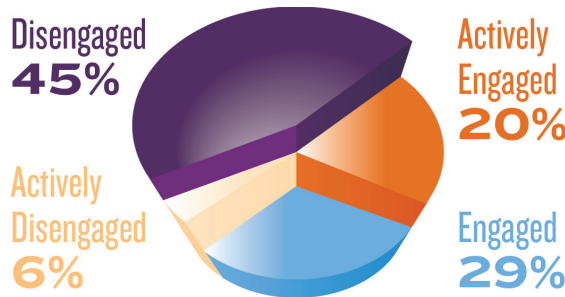
Physician Leadership a Clear Priority

Two data points are compelling when it comes to the role of physicians in the leadership equation. First, physicians continue at a rapid pace to become employees rather than independent practitioners. Forecasts suggest over 75% of physicians could be employed in hospitals and systems by 2020.¹⁹ Second, physicians are underrepresented in senior leadership, representing just 14% of C-suite hires in a recent study.²⁰

This situation is changing rapidly as organizations seek closer integration of the clinical and administrative. Doctors are being recruited for new positions such as Vice President of Clinical Transformation or Informatics as well lending their voice as part of management dyads or triads with other leaders.²¹ Roles span the operational, strategic and even cultural. As the AHA Environmental Scan observes, the physician leader must drive a culture of accountability, commitment to care excellence and continuous performance improvement. Determining the right skill sets, identifying physicians with the best cultural fit and providing strong training are all becoming paramount.

Workforce Engagement Remains a Key Ingredient in Achieving Quality

The shift to value-based care is increasing the emphasis on patient satisfaction and employee engagement at every level of the organization. Yet achieving such engagement continues to be very challenging. A recent B. E. Smith survey found executives completely divided:²²



Given the attention to this topic over the years, one would expect greater progress toward positive engagement, suggesting further prioritization needed. B. E. Smith frequently advises organizations on enhancing workforce engagement. Recommendations include:

- Foster a truly collaborative culture that sees individuals as partners who can bring ideas to the table.
- Promote the right competitive environment that motivates rather than stifles change.
- Gain leadership exposure to people outside healthcare for fresh perspectives.
- Be attentive and work hard to overcome cultural and social norms that inhibit engagement. For example, women comprise 80% of the healthcare workforce but only 18% of leadership.

The trends discussed here span a range of factors impacting institutional structures, competitive forces, patient demands, population health and workforce development and engagement. Clearly 2015 presents many challenges, but healthcare leaders should recognize that successfully navigating the changes presents exceptional opportunities to make significant progress towards transforming not only their organizations, but the industry as a whole.

18 "Who are you hiring for your C-suite?" *Becker's Hospital Review*, August 25, 2014.

19 *AHA Environmental Scan*

20 "Who are you hiring for your C-suite?" *Becker's Hospital Review*, August 25, 2014.

21 Health Research & Educational Trust, *Building a leadership team for the health care organization of the future*, April 2014.

22 B. E. Smith survey, 2014

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Doug Smith, MBA, MHA, has served as president and chief executive officer at B. E. Smith since 1996. A seasoned professional with more than 30 years of experience in healthcare search and recruitment, Smith provided leadership to B. E. Smith during a period in which the firm grew from two consultants to a staff of over 200.



Christine Ricci, MBA, RN, is chief communications officer at B. E. Smith. Ricci is recognized for assessing market conditions, building strategy and brands and delivering with executional excellence.

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