

Healthcare Trends - 2014

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

This year's B. E. Smith survey of more than 300 healthcare executives revealed several interesting trends, which clearly emerge from the challenging economic backdrop. The current environment is hyperpolarized, as recently described by *Fortune magazine*: strong or record recovery in housing, exports and equities markets counterbalanced by very weak progress on GDP, wage growth and the unemployment rate.¹ Economic indicators in healthcare show persistent headwinds. While job growth has been positive over the past year, spending continues its long-term decline. Indeed, CMS is now predicting a total \$1.7 trillion spending reduction from 2011 – 2020.



The polarized economy is mirrored by polarized political environments in which the ability to find consensus on a wide range of issues seems challenging. This environment has heightened the uncertainty healthcare leadership faces in planning for government funding and regulatory directions.

Following are the trends identified by survey respondents as critical planning drivers for the next year.

Structural Realignment Accelerating

Leaders are coping with the economic conditions and fundamental business model change by reframing how healthcare is delivered. Non-traditional mergers, alliances and other combinations are being pursued. For-profit hospitals are buying not-for-profits; children's hospitals are merging with general hospitals; independent academic medical centers are becoming part of investor-owned companies or large health systems. The industry is even witnessing organizations acquiring others well outside their care or geographic scope. Respondents also note that the movement to acquiring physician practices remains unabated. In fact, 91% of larger healthcare systems now own or plan to own medical groups.²

These various trends toward consolidation are being driven by several imperatives: survival for some hospitals, reduction of duplicative services and costs, maximizing strengths through strategic relationships and the need to focus on and control the most profitable service lines in a market, as well as cost along the care continuum.

Developing Care Across the Continuum

Delivering high quality care in the most cost effective setting places a premium on care coordination. Healthcare providers are now being rewarded and reimbursed for quality outcomes rather than merely on volumes. The incentives are changing and are being driven by two trends. First, increased focus on managing chronic conditions that generate the majority of costs is causing greater use of outpatient care and promotion of models such as patient-centered medical homes and accountable care organizations. Second, the focus on preventative care and managing health at the population level, promoted more and more by payers, moves coordination and patient engagement out into the broader community. Many institutions that are not integrated will be significantly challenged to the core in this effort. Organizations are seeking leaders with the capabilities needed to navigate this complex scenario and optimize performance at every step along the care continuum.

¹ "A Cautiously Optimistic Take on Our Bipolar Economy." *Fortune*, September 2, 2013

² AHA 2014 Environmental Scan

Healthcare Trends - 2014

Fueled by increasing confidence in the labor market, employees are on the move.

Law of Supply and Demand

The fundamental supply and demand laws continue to strain healthcare organizations, leaders and employees. Fueled by increasing confidence in the labor market, employees are on the move. A recent survey found that 74% of chief executive officers plan to retire in the next 10 years.³ In a 2012 study, 43% of chief financial officers and 60% of chief nursing officers anticipated changing jobs in the next five years.⁴ Willingness to relocate is no longer the barrier that it was a year ago.

Bridging the supply-demand gap requires creativity. Leaders are devoting energy to retention and need to focus on the highest impact motivators:⁵

- In-house training
- Education reimbursement
- Flexible work schedules
- Opportunity to mentor others
- Autonomy in position

As well, improving employee engagement – the emotional attachment to job, colleagues and organization - offers the opportunity to turn traditional economic models on their side and create a supply curve of high performers that is well worth the investment. Many studies have statistically demonstrated that employees who are highly engaged on various measures improve productivity and profits and are loyal to their employers. According to one study, employees with the highest level of commitment perform 20% better and are 87% less likely to leave the organization.⁶

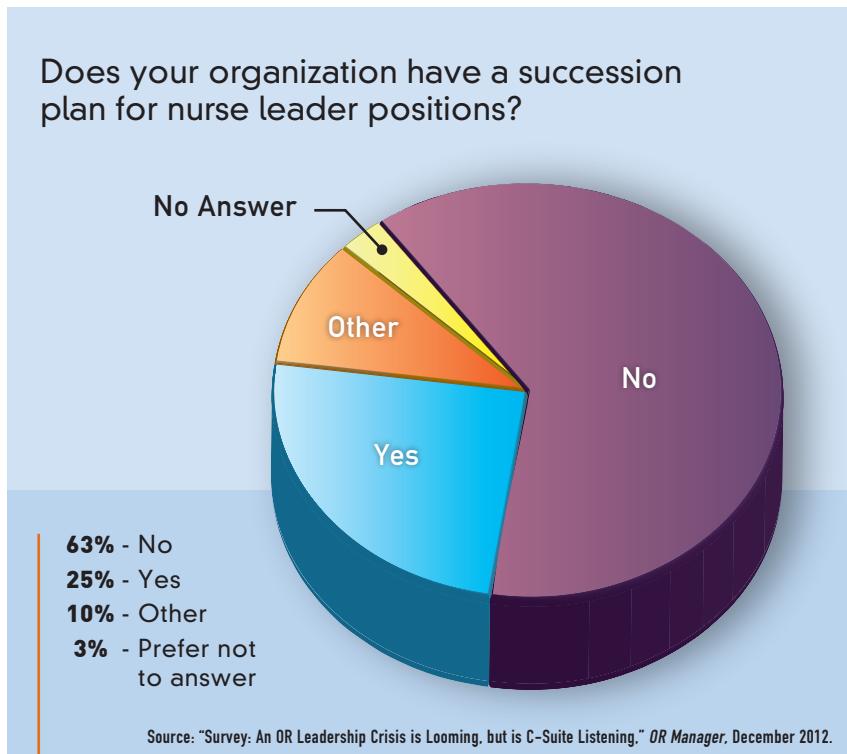
Growing Demand for Leadership Roles

The shortages that have plagued the healthcare industry will continue into 2014. With so much on the line, there is especially sharp demand and increased competition for these strategic roles and positions:

- Physicians in executive and operational positions (66% of CEOs in a survey indicated that representation of physicians on their leadership team is less than 10%)⁷
- Clinical informatics leaders (CNIO or CMIO)
- Nursing leaders (especially those with business or financial backgrounds)
- Population health management leaders

Beyond specific roles, leadership skills are highly sought after across the board. Survey respondents place high value on:

- **Ability to embrace uncertainty**
- **Self-leadership** – commitment to personal growth through self-generated development, education, networking and outside coaching
- **Ability to influence others** – Four related predictors of influential impact:
 - **Expertise** – does this person truly have domain knowledge?
 - **Trust** – can I rely on this person?
 - **Likability** – do I relate to and like being around this person?
 - **Credibility** – is this person believable and respected inside and outside the organization?



³ HealthLeaders Media. "HealthLeaders Media Industry Survey. (www.healthleadersmedia.com/industry_survey)

⁴ Amalgamation 2012 Analysis. HFMA. William M. Mercer, HR Strategic Solutions

⁵ CareerBuilder Health Care Survey

⁶ Appelbaum et. al., Workplace Innovation and Labor Policy Leadership

⁷ Survey by Aegis Health Group, cited in AHA 2014 Environmental Scan

Specialists and Technical Expertise in Particularly High Demand

Employee turnover and key shortages are on the rise especially in crucial clinical areas such as perioperative nursing, women and children's health, case management, ICU, as well as in quality management, data analytics⁸ and specific IT skills. The trend is expected to continue in 2014 as evidenced by one OR nursing survey that found that 75% of nursing leaders are over the age of 50; 59% have 30 years of experience; 22% will retire in the next three years; and 65% will leave the workforce within the next 10 years. Adding to the urgency is the realization that succession plans for nursing leadership are not in place in nearly 60% of organizations.⁹

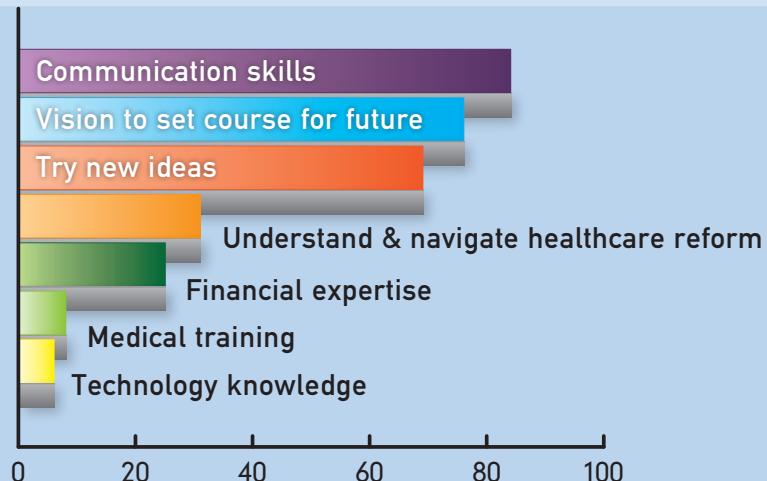
Using experienced interim management and outsourcing remain strong tools for leaders to wield in adapting to these shortages. A recent survey indicated that 47% of healthcare executives plan increased spending on outsourced services in the coming year.¹⁰ These strategies preserve capital and maintain liquidity and financial flexibility. Existing human resources can focus on high priorities, leaving completion of specialized or temporary projects to external partnerships.

Need to Prepare Today's Leaders for Tomorrow's World

B. E. Smith's survey revealed an increasing demand for next generation leaders who bring fresh, new perspectives to the challenging healthcare environment. These future healthcare leaders will need the following skill sets:

- **Communication** skills, especially the ability to get others to embrace change - 84% of healthcare leaders believe this is the most important skill¹¹
- **Vision** - anticipating the future, not reacting to it
- **Agility and adaptability**
- **Financial and technical acumen**
- Ability to **align physicians** and the hospital – as MDs become more prevalent on leadership teams, strengthening relations will be important, mirroring the emphasis in recent years on alignment with the financial and operational sides of the organization.

What are the most important skills for an executive in the healthcare industry?



84% - Communication skills

76% - Vision for transformative culture change and ability to set the course for that change

69% - Willingness to adapt to change and try new ideas

31% - Ability to understand and navigate healthcare reform and other mandates

25% - Financial expertise

8% - Medical training

6% - Technology knowledge

Source: HealthLeaders Top Skills for Top Executives, 2013

Developing tomorrow's leaders is a priority. Recognizing that new leaders are frequently moved into mid-management positions without appropriate support, organizations are deploying several tactics. Creative partnerships between key executives both internally and externally can create deeper mentoring opportunities and help fill voids in knowledge/experience. Formal executive coaching is helping some leaders learn to navigate through the changes inherent to healthcare reform. A variety of incentives are also being created to foster a truly continuous learning environment.

⁸ McKinsey estimates that by 2018 the U.S. will have a shortage of two million workers with requisite skills in data analysis, data management, and systems management for "big data" needs. McKinsey & Company, report on "The 'big data' revolution in healthcare," January 2013

⁹ "Survey: An OR Leadership Crisis is Looming, but is C-Suite Listening," *OR Manager*, December 2012

¹⁰ "An Inside Job?," *Modern Healthcare*, September 2, 2013

¹¹ HealthLeaders Top Skills for Top Executives, 2013

Healthcare Trends - 2014

88% of leaders feel enhancements to the executive compensation structure are needed.

Standardize Operations

The 2014 survey shows that clinical and administrative efficiency and agility are at absolute premiums today. Increasing patient acuity on inpatient units, increasing use of outpatient services and declining across-the-board reimbursements are straining historical staffing models and upending current operations. With smaller staffs delivering fewer but more specialized services, hospitals are embracing LEAN approaches and seeking to standardize practices, processes, policies, technology and purchasing. Reducing process variability not only reduces risks and costs, it also can provide the speed and momentum needed to adapt to a highly dynamic environment. Standardization is likewise viewed as a way to create an infrastructure that is able to sustain long-run performance improvements. As a result, boards are showing less tolerance for standardization efforts that take years, pressuring leaders to make progress in weeks and months in many cases.

Keep it Simple

As John Glaser has stated: "Healthcare delivery is arguably the most complex industry in existence."¹² B. E. Smith survey respondents indicate that change and uncertainty are introducing even greater complexity into their environments. Uncharted waters will lead to mistakes that must be treated as opportunities to learn and improve processes. Leaders believe that success will come to those able to root out damaging complexity and bring simplicity to their organizations. Information technology and the use of actionable data are key, but not the sole tools in this battle. Simplification unleashes speed and agility, and permits organizations to focus their efforts.

Executive Compensation being Reevaluated

B. E. Smith's ongoing tracking of compensation trends reveals a desire for new approaches to reflect the altered business environment. Recent B. E. Smith sponsored research revealed that 88% of leaders feel enhancements to the executive compensation structure are needed.¹³ For executives in the same roles, current allocation is 80% base salary, 10% incentive payment, 10% non-cash and retirement. Boards remain hesitant to make significant changes to packages fearing overhaul could be highly disruptive to the organization. Instead, they report leveraging new executive hires as opportunities to revamp and modernize compensation structures. Leading-edge organizations are using metrics-based performance bonuses and related approaches.

Transformational Culture

Culture can be one of the most influential determinants of organizational success, and leaders are realizing that barriers created by culture can derail their efforts at needed transformation. Boards look to healthcare executives to define the cultural dynamics needed to be successful. B. E. Smith has identified the need to create a "culture of leadership" in which people that exhibit flexibility, creativity and resourcefulness can thrive. Such a culture promotes the innovation and collaboration that this year's survey demonstrates are essential to success in 21st century healthcare.

As previously mentioned, the current environment moving into 2014 is hyperpolarized with strong housing, exports and the equity markets counterbalanced by weak progress on GDP and wage growth. Strong healthcare leadership will be critical for organizations to succeed despite the persistent headwinds in the foreseeable future.

¹² John Glaser. "Managing Complexity with Health Care Information Technology." *H&HN Daily*, October 8, 2013

¹³ "Executive Compensation Survey." *HealthLeaders Intelligence*, November 2013

B. E. Smith: Integrated Healthcare Leadership Solutions

Founded in 1978, B. E. Smith is a full-service leadership solutions firm for healthcare providers. B. E. Smith's comprehensive suite of services includes: **Interim Leadership, Permanent Executive Placements and Management Consulting.** The company's veteran healthcare recruiters partner with each client to create a solution that uniquely fits their individual needs. With more than 35 years of experience, B. E. Smith has the expertise to enable your organization to develop current leaders or identify experienced external leaders to strengthen your executive team.



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