

Health care organizations turn to CFOs to help navigate disruption

Finance leaders are helping health care organizations address a broader set of priorities ranging from talent and health equity to digital and cybersecurity strategies.

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Executive summary

SINCE 2020, THE Deloitte Center for Health Solutions has explored health care finance leaders' top issues and opportunities and examined how they're navigating their organizations amid uncertainties. During the last three years, the one constant has been how these leaders have confronted major challenges and created new business strategies and innovative models in response to these crises.

In April and May of 2022, we surveyed 61 finance leaders of US health systems and health plans, and interviewed a further six to understand their respective organization's financial outlook, top challenges and opportunities, and to learn how they're preparing their organizations to succeed. Here are the key findings from our research:

Health care finance leaders are responding to talent and macro-economic issues to offset a muted financial outlook

- One in two surveyed CFOs predict stagnant or declining operating margins in 2022 compared to 2021.
- All interviewed finance leaders listed talent as their top concern and are focused on talent investments and solutions such as automation and upskilling. Most of the leaders said that they view talent investments with the same rigor and importance as major capital expenditures.

- Labor expenses have significantly outpaced historical rates owing to talent burnout and retention challenges, particularly in nursing, according to interviewees. In addition, they said inflation and a bleak economic outlook may exacerbate other expenses, including supply chain.

Finance leaders have a growing stake in their organizations' sustainability, climate, and equity efforts

- Four in five surveyed CFOs are interested in leading broader organizational efforts to address sustainability and climate (environment, social, and corporate governance [ESG]) and health equity issues, either as a sponsor or an enabler.
- Nine in ten CFOs have defined their organization's ESG strategy or are in the process of doing so. However, many admitted that there's still work to be done on an implementation front. In their role, CFOs are working to create a task force, assess and measure risks, and align investments based on ESG.
- For their organizations' health equity initiatives, two-thirds of CFOs are overseeing implementation at full scale and measuring its impact, while one-third of CFOs are still in initial conversations with their organizations' board.

Finance leaders are making greater digital and cybersecurity investments to navigate business model transformations

- With more organizations making digitally focused business model changes in the last two years, cyberthreats are a top concern for CFOs of health systems (35%) and health plans (53%). Many interviewed CFOs discussed doubling down on investments for cybersecurity and privacy.
- Sustaining business model changes also was a top-of-mind concern. Increased budgeting for achieving cost efficiencies, virtual/in-person integration in care delivery, and hybrid workforce models are top CFO investment priorities, according to the interviewed CFOs.

Health systems and health plans are continuing to navigate business model changes and disruption necessitated by the pandemic. With growing micro- and macro-economic challenges ahead, many health care organizations are looking for finance leaders—as custodians of strategy, risk management, and financial performance—to help them navigate the “new normal.” Health care

finance leaders—evolving from gatekeepers to enablers—should be equal partners to their C-suite counterparts to address talent, sustainability, climate, and equity issues, even as they strengthen digital and cyber capabilities to nurture rapidly evolving business models.

RESEARCH METHODOLOGY

Between April and May 2022, the Deloitte Center for Health Solutions surveyed 61 financial leaders (chief financial officers, finance vice presidents, and above) with large US health care organizations to understand their perspectives on lessons learned, top concerns, and growth priorities. The respondents included:

- Thirty-one finance leaders from health systems with revenue of more than US\$1 billion each
- Thirty finance leaders from health plans with a minimum total covered lives of 500,000

We also interviewed finance leaders of six large US health systems and health plans.

Finance leaders zero in on addressing talent and macro-economic pressures

FOR THE ALWAYS top-of-mind focus on financial performance, many health care finance leaders—both surveyed and interviewed—predict a muted financial outlook for their organizations. About half of surveyed finance leaders project their organizations' operating margins in 2022 to remain stagnant or decline compared to last year. Expenses have increased substantially due to talent challenges as organizations seek to retain and engage both clinical and nonclinical labor.

Nearly all interviewees agreed that the current growth rate of labor costs is unprecedented. For instance, one of the interviewees mentioned that the talent costs, especially for clinical workers, for their organization increased as much as 30% over a two-year period. While talent challenges have impacted health plans as well, the impact is more pronounced for health systems. Three in four surveyed health system finance leaders reported nursing shortages and clinical staff burnout as top talent concerns for their organizations.

In addition, a turbulent economy and global geopolitical instability are accelerating expense growth: Inflation and supply chain challenges were the top concerns of interviewed executives after talent. Some interviewees mentioned that their organization's cost of goods increased 8–10%, which likely will put pressure on the operating margins for 2022 and 2023.

“We have seen the trend and trajectory of labor cost inflation [in the past]. It has been pretty moderate. All of a sudden, that trajectory has changed and moved to a steeper trajectory. Our revenue growth is not going to change.”

— *Chief financial officer,
large academic medical center*

Every interviewed finance leader listed talent as their top concern and an area where they are focused on investments and solutions. Most discussed viewing talent investments with the same rigor and importance as major capital expenditures. This is a relatively new role for CFOs who, in the past, weren't very involved in the details of nursing retention and staff shortages.

Many interviewed CFOs discussed how they are working closely with their talent counterparts to address workforce challenges. Many of the surveyed and interviewed CFOs are looking at

automation alternatives (e.g., bots for payment processing) to reduce the workload of the staff (figure 1). For context, many interviewed CFOs provided examples from their own finance departments. Finance transformation is a microcosm of workforce transformation, and with the appropriate focus on upskilling the workforce, the multiyear investments in automation initiatives are expected to improve the workflow, reduce the staff burden, and allow the finance workforce to focus on higher-value activities (e.g., bringing finance insights to the business) that drive long-term returns.

FIGURE 1

Increasing automation, workforce flexibility, and well-being are among the top talent initiatives

Q: Please rate your level of agreement to the following talent-related situations in your organization.

■ Strongly agree ■ Agree ■ Neutral/disagree



Note: N = 61.

Source: Deloitte 2022 US Health Care CFO survey.

“CFOs should think of capital investments beyond brick and mortar and IT technology. Invest in people. That’s the main capital investment. Returns might not be immediate but long-term benefits should be factored in.”

— *Chief financial officer,
large regional health system*

Other workforce initiatives include creating hybrid workplaces to increase flexibility, investing in well-being such as mental health services, evaluating compensation and rewards, and budgeting for reskilling and upskilling. On the latter, interviewed finance leaders discussed how matching skills to the evolving work can give workers more choice, opportunity, and equity. When organizations can connect people to work that uses their skills, they’re likely to see higher engagement, productivity, and a sense of purpose.

In addition, the interviewed CFOs discussed a few collaboration efforts to address staffing shortages.

For example, a health system with multiple locations set up systems to share staff (especially nurses) across sites to address staffing shortfalls. These arrangements helped ensure undisrupted care delivery during moments of crisis. Also, such collaborations are helping health systems provide skill development programs and share workforce best practices with other systems. Other interviewees discussed potentially collaborating with educational institutes such as nursing schools to recruit health care workers directly from education pools.

Finance leaders' growing interest in addressing sustainability, climate, and equity issues

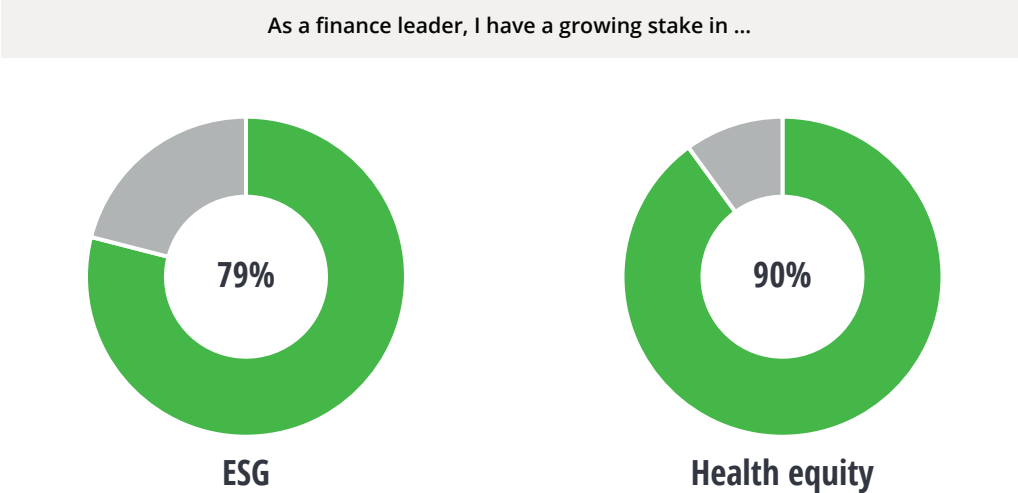
IN RECENT YEARS, many health care organizations have stepped up their efforts to address sustainability, climate, and health equity issues. Finance leaders discussed how these efforts likely require financial sponsorship and support. Our research was designed to gain a better understanding of how health systems and health plans are organized around these issues. We asked

finance leaders about their organizations' sustainability and climate initiatives (some refer to this as a part of a broader ESG approach), their efforts to achieve greater health equity, and their role as enablers. Most of the surveyed CFOs said they've become more involved in leading broader organizational efforts to address ESG and health equity issues (figure 2).

FIGURE 2

Finance leaders have a growing stake in ESG and health equity efforts

Q: Please rate your level of agreement to the following statement.



Note: Percentage of surveyed respondents who agreed/strongly agreed with the statements; N = 61. Source: Deloitte 2022 US Health Care CFO survey.

Climate change is a major driver of health that creates a cascading effect on other drivers. Beyond being impacted by the effects of climate change, health care organizations also are contributors to it and have an important role in solving the crisis.¹ CFOs said they're committed to enabling ESG strategy and value creation, but that what they focus on, where they invest, and how they define it differs across health care organizations.

When asked what ESG means to their organizations, some surveyed CFOs said they're more focused on the environmental aspects, with 36% selecting clean air and water and 34% selecting use of renewable energy sources as their main areas of focus. Others are more focused on governance and risk management, with 33% identifying and managing risks and opportunities related to climate as a key initiative.

More than 90% of surveyed and interviewed CFOs said that their organizations have either defined or are in the process of defining their ESG strategy. However, they admitted there's still work to be done to implement the various aspects of the strategy (figure 3). Based on our research, here are a few ways that health care organizations are thinking about their ESG strategies—and a glimpse into the progress they've made to date:

- **Creating an ESG task force:** Four in five surveyed CFOs either have created or plan to

create a dedicated ESG task force within the next couple of years. However, many interviewed CFOs admitted that while the creation of a dedicated team is necessary, conflicting workforce priorities make it challenging. For example, the absence of regulatory mandates, especially for nonprofit organizations, may delay the creation of a task force, according to a few interviewed CFOs.

- **Assessing the risks:** Only one in three surveyed CFOs have assessed their ESG risks. Many interviewed CFOs discussed the assessments as an ongoing activity. One of the challenges they face is a lack of mandates that encourage organizations to adhere to the standards and frameworks—and how that affects the way organizations define and assess their risks.
- **Aligning capital investments based on ESG:** About half of the surveyed CFOs have begun to make capital investments that align with their organizations' ESG strategy. The interviewed CFOs had mixed responses because they believe that many organizations aren't fully prepared to make hard dollar investments based on ESG. In fact, only one interviewee's organization has capital investments plans that take ESG into consideration.

“Our approach is people, prosperity, and planet. We try to set goals that change how we behave. It is a strategic decision to do something visible and inspire others to get onboard as opposed to closing our carbon footprint by buying credits.”

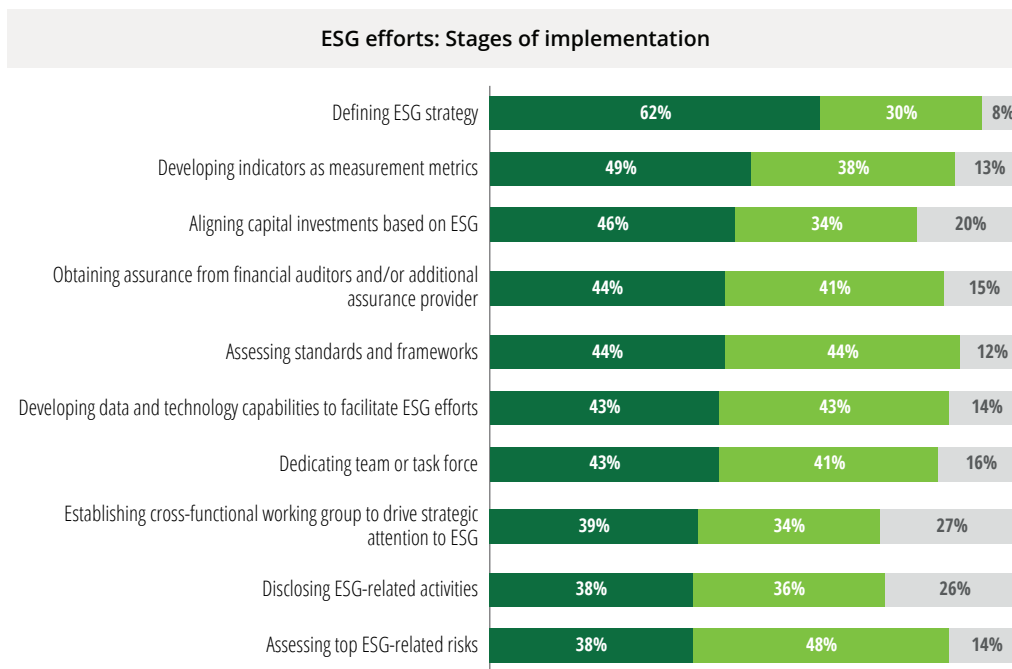
— *Chief financial officer,
large integrated not-for-profit health system*

FIGURE 3

Health care finance leaders are enabling organizational ESG efforts

Q: My organization has done the following as a part of our ESG efforts.

■ Completed ■ Plan to complete in next 1–2 years ■ No plans/not sure



Note: N = 61.
Source: Deloitte 2022 US Health Care CFO survey.

- Measuring and disclosing ESG metrics:** About half of surveyed and interviewed finance leaders have begun measuring ESG metrics. On disclosures, there was a consensus among interviewees to take a “wait and watch” approach on carbon footprint, particularly for quantifying scope 3 emissions (indirect greenhouse gas emissions) due to absence of regulatory mandates and standards for nonprofits. However, scope 3 emissions, which include the emissions of suppliers, comprise more than 80% of total health care emissions, according to a Health Affairs study.² Hence, measuring, disclosing, and controlling these emissions should be a priority for health care organizations.

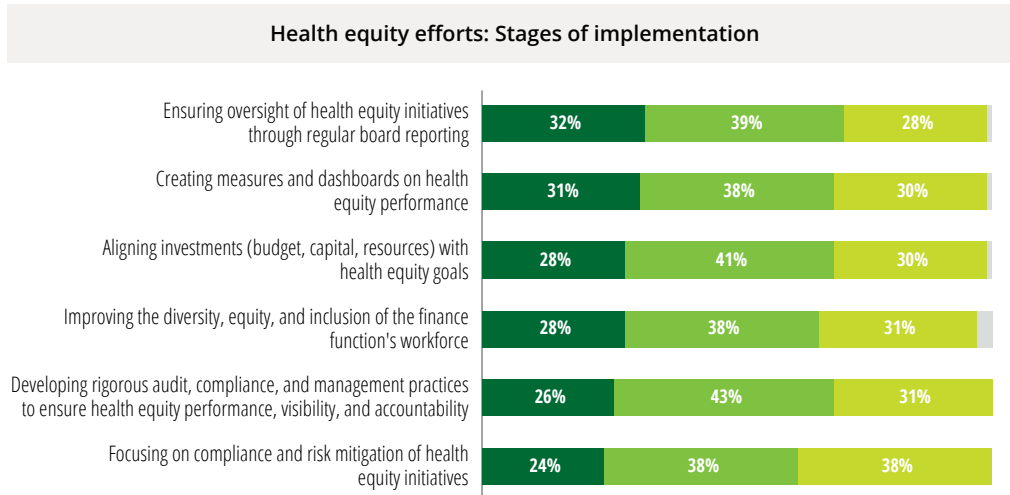
Addressing health equity continues to be a top priority for both health systems and health plans.³ In our [2021 survey](#), CFOs identified health equity as a top organizational goal, and emphasized their focus on identifying related opportunities and initiatives. This year, we asked finance leaders about the progress of their health equity efforts. The CFOs said their organizations have launched initiatives that range from aligning investments with health equity goals and measuring and reporting progress to developing risk and compliance practices for accountability on health equity initiatives (figure 4).

FIGURE 4

Finance leaders are implementing and optimizing multiple health equity efforts

Q: At what stage is your organization when it comes to implementing the following health equity efforts?

- Planning/piloting (initial conversations/assessments with the board)
- Implementing (in process of implementing at full scale)
- Optimizing (implemented a strategy and measuring the impact)
- NA/can't say



Note: N = 61.
Source: Deloitte 2022 US Health Care CFO survey.

The reports of progress are mixed. One-third of the surveyed CFOs are still in the planning stages and are conducting initial conversations and assessment activities with the board. One related area of focus is creating oversight and board reporting mechanisms for their health equity initiatives, according to both surveyed and interviewed executives.

Another one-third of the surveyed CFOs are in full-scale implementation mode of several initiatives. Interviewed CFOs discussed their role in enabling health equity initiatives as well as ensuring

accountability. For instance, more than 40% of survey respondents have made investments that align with their organizations' health equity goals. The accountability of these investments rests on the finance leaders, according to the interviewed CFOs. The remaining one-third of surveyed CFOs are farther along in their efforts and have begun measuring the impact of several health equity initiatives. A few interviewed CFOs have been able to address pain points and direct investments based on the creation of dashboards and other tools designed to measure health equity parameters on both an individual and community level.

Digital and cybersecurity strategies help organizations navigate business model transformation

THE PANDEMIC WAS a catalyst for business model shifts in the last two years. Virtual health, hospital-at-home, and remote/hybrid work approaches gained more strategic importance. These new ways of working and delivering care have a direct impact on an organization's digital strategy and are reflected in its capital investment priorities. For the third consecutive year, investments in digital technologies, data and interoperability tools, and core business technologies have trumped other traditional capital expenditure areas such as brick and mortar and mergers and acquisitions, according to both surveyed and interviewed CFOs (figure 5).

As more organizations accelerate their digital strategies, cybersecurity threats are increasing. In fact, surveyed CFOs of both health systems (35%) and health plans (53%) rated cybersecurity and privacy as their top concerns. Cybersecurity threats have always loomed for health care organizations

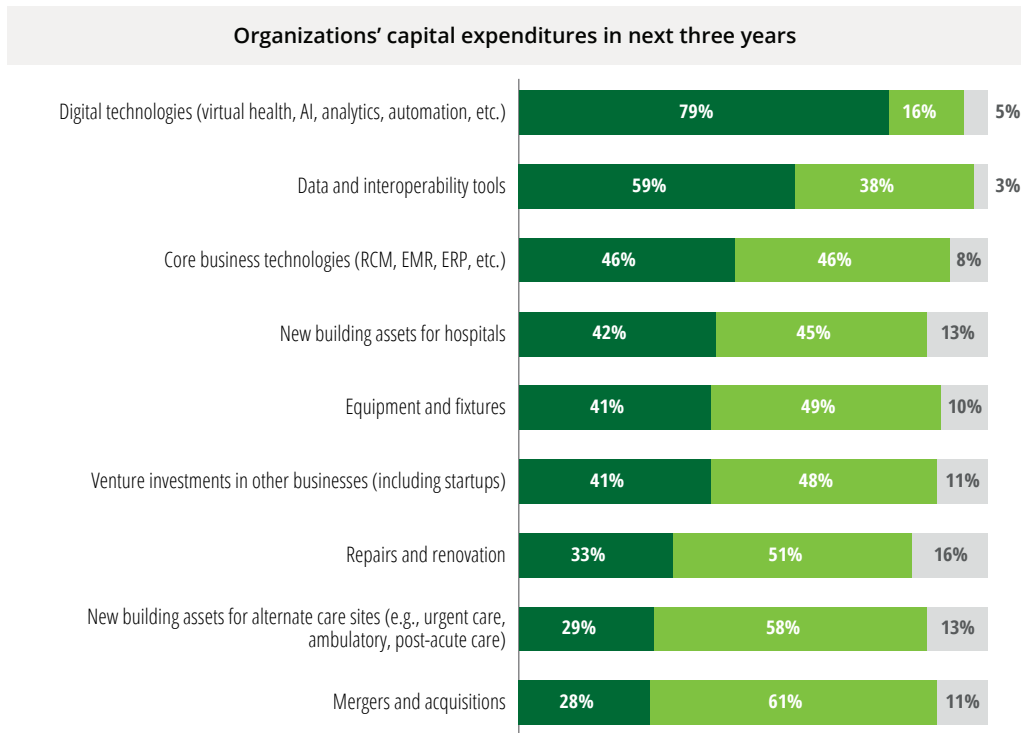
owing to the huge amount of patient data they collect. As the use of virtual health solutions and remote health care workforce models both increase, so has the need to enhance cybersecurity efforts. With these shifts, more staff members than ever have remote access to patient and other secure data. In fact, a 2021 study showed a 117% increase in security alerts, and a 42% increase in file transfer protocol vulnerabilities due to increased remote work for health care organizations.⁴ Many interviewed CFOs pointed to increased cybersecurity incidents leading to personal identifiable information and personal health information data compromises, and at times, a loss of reputation for the involved organization. In response, finance leaders are planning to substantially increase their organizations' cybersecurity investments this year and in the coming year.

FIGURE 5

Digital technologies, data and interoperability tools, and core business technologies are the top capital expenditures

Q: How do you plan to prioritize your organization’s capital expenditures in the next three years compared to last year?

■ Increase spending ■ Stay unchanged ■ Reduce spending



Note: N = 61.
Source: Deloitte 2022 US Health Care CFO survey.

Finding ways to sustain the business model changes made during the pandemic was another top-of-mind concern for the surveyed CFOs. While some of the business model changes, such as increased use of virtual health tools, were out of necessity, finding a balance among the sweeping changes made during the last two years was identified as the biggest priority by the CFOs we interviewed. According to our research, CFOs are focused on:

Adopting a hybrid workforce and workplace model: In the last two years, many health care organizations paused their plans for facility expansions or ended their leases. However, as facilities reopen, many interviewed CFOs are budgeting for the right workplace size and structure that balances organizational work priorities and allows workforce flexibility and well-being.

Expanding digital care delivery: Many interviewed CFOs are witnessing a gradual decline in the use of virtual health in the services mix. However, some mentioned that the revenue mix is shifting toward other digital health services such as hospital-at-home and chronic condition management.

Investing in automation and efficiency tools: There was a consensus among interviewed CFOs on investing in digital capabilities to help reduce costs and increase efficiencies. In their own finance departments, they discussed automating several processes (e.g., reporting and repetitive tasks), which with the appropriate upskilling, would allow their finance workforces to focus on high-value activities. In addition, many discussed digitizing parts of the supply chain to help with procurement efficiencies.

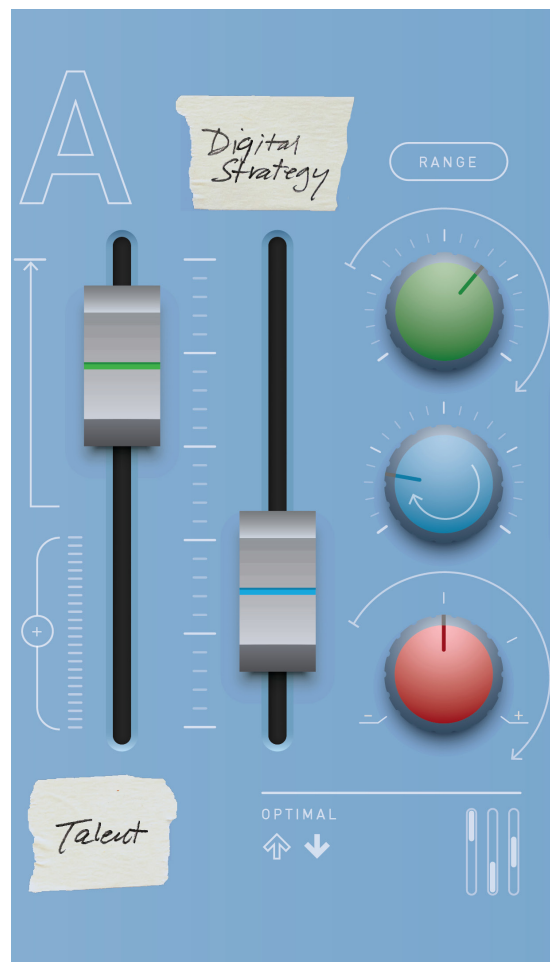
“We are working on the digital business model to develop algorithms that are much better than humans at discerning signal out of noise in terms of data. We do have a chance to radically improve care and probably reduce the cost profile for it as well—while keeping cybersecurity in mind.”

*— Chief financial officer,
large academic medical center*

How health care CFOs can continue helping their organizations balance priorities

THE HEALTH CARE CFO role is evolving beyond that of a financial and budgeting gatekeeper to also being a disruptive business model enabler. Today's CFO is expanding their reach to include nontraditional areas like talent, sustainability, climate, equity, and digital solutions. To continue helping their organizations address a broader set of priorities, they should consider:

- **Talent:** Making investments focused on automation, upskilling, optimum physical/virtual integration, and improved financial and emotional well-being initiatives to provide a satisfying clinical and nonclinical talent experience.
- **Sustainability, climate, and equity:** Leading governance, process, and oversight of new investment opportunities based on organizational sustainability, climate, and health equity priorities.
- **Digital:** Aligning cybersecurity and digital solutions to protect data and secure new business models as they double down on digital investments and focus on the return.



Endnotes

1. Neal Batra et al., *Why climate resilience is key to building the health care organization of the future*, Deloitte Insights, April 4, 2022.
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