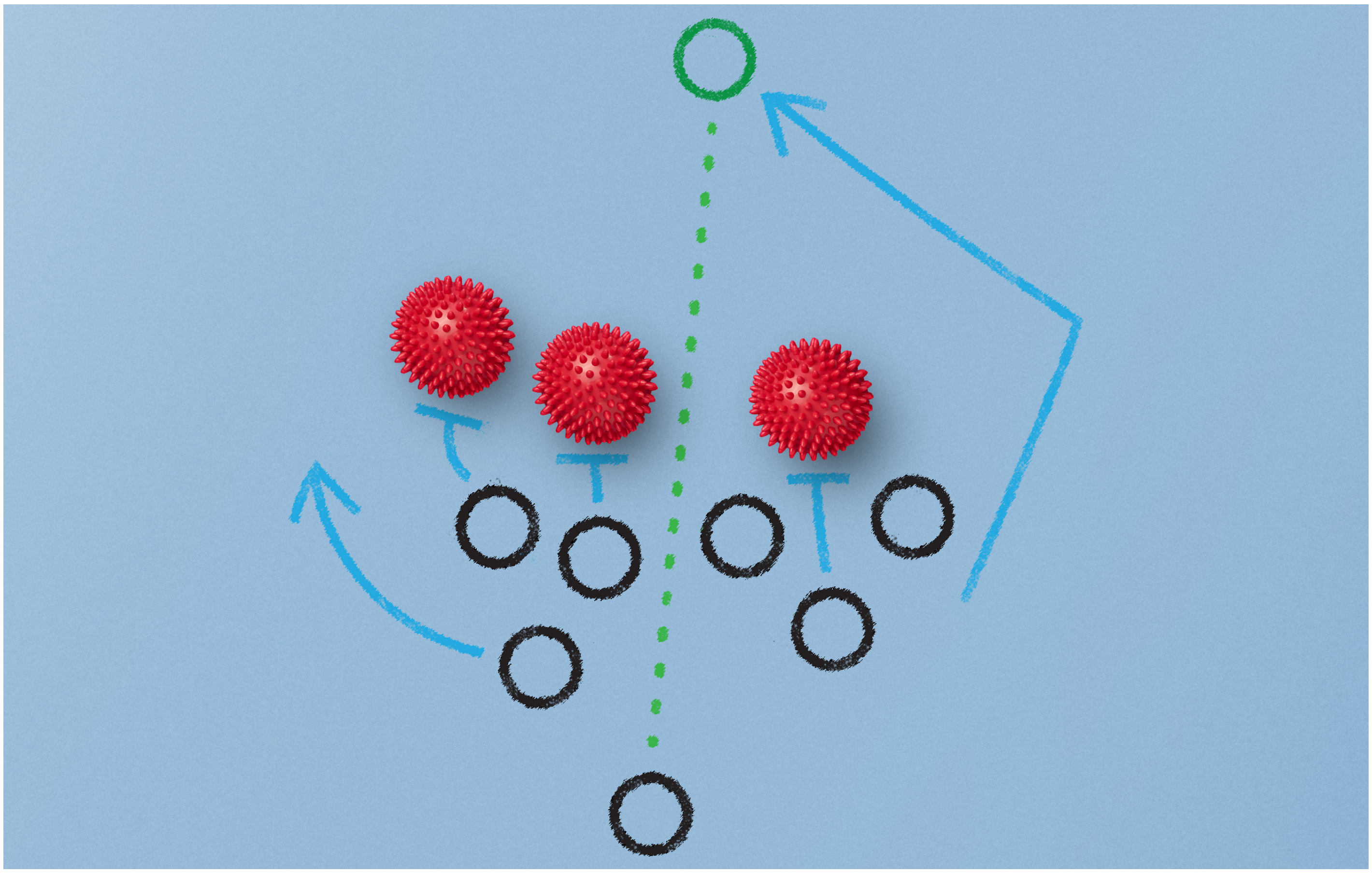


FEATURE

Overcoming challenges and achieving resilience: The changing role of health care finance leaders to help ensure long-term success

Temano Shurland, Abhinav Astavans, Wendy Gerhardt, and Maulesh Shukla

The pandemic was a catalyst for change in the health care industry. Explore how health care finance leaders, with their broadening role, are influencing technology investments, rethinking work, and enabling a health equity agenda as ways to position their organizations for success.

Executive summary

In the fall of last year, we published a research study on how health care chief financial officers (CFOs) were responding to the COVID-19 pandemic and navigating their organizations toward a more resilient future.[1] From the immediate financial impact of the pandemic and quick strategic decisions to a shift toward a greater focus on virtual health and consumer engagement, we explored how CFOs were rethinking their organization's strategic priorities.

With the end of the pandemic now in sight, the Deloitte Center for Health Solutions again surveyed 60 CFOs from health systems and health plans and interviewed another 12 CFOs to better understand what they foresee in the future. We found that:

Financial uncertainty is top of mind for finance leaders—it always has been, but now more than ever.

- Two of three survey respondents said they expect revenue growth in the coming year as they emerge from last year's significant revenue decline.
- However, two in three said they also predict only slight or no improvement in margins due to continuing growth in costs and a shift toward volumes with potential lower payments (such as virtual health visits).
- One in three health system respondents stated that sustaining business model changes made during the pandemic (virtual services, virtual operations) was a top concern.

With challenges to traditional business models (sources of revenue), finance leaders are looking at investing in technologies and rethinking work to future-proof their organizations.

- Digital technologies such as virtual health (68%) and core technologies such as revenue cycle management (57%) are top areas of capital spending according to surveyed CFOs.
- Interviewed finance leaders discussed spending on technology for newer growth avenues (e.g., alternate care modalities) and to manage costs (e.g., supply chain).
- Half of the survey respondents reported that new ways of working (virtual, gig workers, automation) was their top organizational priority. Finance leaders are aligning investments for a workplace that is increasingly hybrid and virtual-first. Many cited a focus on employee motivation, engagement, and well-being as key drivers.

Health equity is among top organizational goals, and finance leaders are focused on their role in identifying opportunities and supporting initiatives.

- Sixty percent of surveyed finance leaders said health equity initiatives are a top organizational priority.
- To achieve desired scale, they are focused on three key areas—aligning health equity investments with desired outcomes and goals (85%); improving workforce diversity, equity, and inclusion in their own function (85%); and compliance and reporting of initiatives (81%).

As business models evolve, finance leaders are broadening their responsibilities as strategic enablers.

- Three in four surveyed CFOs said their role is evolving beyond traditional finance functions to being partners in organizational decision-making.
- Interviewed CFOs also view themselves as strategic business partners with other leaders in the business, who are involved in decision-making throughout the planning process, instead of being viewed as the final barrier to overcome.

The pandemic has necessitated widespread fundamental change in the health care industry—right from operations and supply chain to consumer engagement and future strategies. As health care shifts away from an inpatient hospital revenue focus, CFOs have an important and growing role. Their strategic decisions on key transformation areas such as care delivery innovation, new ways of working, digital technologies, and mobilizing health equity will help decide their organizations' future and how resilient they will be in the postpandemic world—both immediately and in the long term.

Introduction

2020 was a challenging year for all businesses and industries, but in particular it was an unprecedented crisis for health care organizations. Even as they responded resiliently, saving millions of lives, many faced financial, workforce, and supply chain vulnerabilities. The American Hospital Association estimated the financial losses for hospitals and health systems at US$323 billion last year.[2] Health plans benefited from delayed procedures, and muted claims,[3] but continued to face challenges in premium rate setting, rebates, and reserves.[4]

As vaccine distribution and adoption increase, the worst seems to be over for health care organizations. Several of them are moving from *respond* and *recover* to *thrive*. To find out how organizations are planning to *thrive* financially, transform themselves, and be more resilient, we surveyed 60 and interviewed 12 health care finance leaders (see the sidebar, "Research methodology").

RESEARCH METHODOLOGY

The Deloitte Center for Health Solutions surveyed financial leaders (chief financial officers and finance vice presidents or above) from 60 large health care organizations with a focus on understanding their perspectives on lessons learned, top concerns, and growth priorities. The respondents included:

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

We also interviewed CFOs of 12 diverse, large health systems and health plans.

Research findings

FINANCIAL UNCERTAINTY IS TOP OF MIND FOR FINANCE LEADERS—IT ALWAYS HAS BEEN, BUT NOW MORE THAN EVER

Surveyed finance leaders project revenue to grow significantly this year as volumes rebound compared to 2020 when elective procedures were cancelled and consumers avoided care.[5] Many of the interviewed leaders predicted that volumes may not reach prepandemic levels in next 1–2 years. In addition, they were worried that volume shift toward virtual visits may lead to lower payment rates, resulting in lower profitability. Executives also discussed how expenses have grown. Many had to focus on physician and employee engagement and compensation, supply chain challenges, and other fixed expenses.

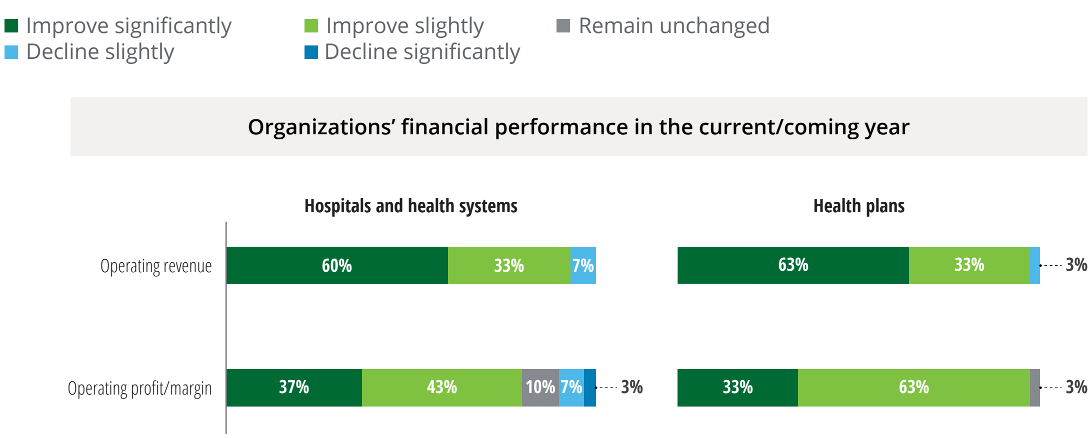
As a result, health system CFOs project only a slight improvement in margins in the next year. For health plans, surveyed CFOs projected margin headwinds from lower premium increases, pent-up demand for elective surgeries, and rebate pressures (figure 1).

> "I am most concerned now about how to lower our costs, so that we continue to thrive in a world where the pandemic is a little bit less important."
>
> — CFO, large regional health system

FIGURE 1

Margin growth may not be commensurate with topline growth in the near term for health systems and health plans

Q: Compared to the fiscal year when the pandemic was at its peak, how would you forecast your organization's financial performance in the current/coming year? It will ...



Note: N=60.
Source: Deloitte 2021 US Health Care CFO survey.

WITH CHALLENGES TO TRADITIONAL BUSINESS MODELS, FINANCE LEADERS ARE LOOKING AT INVESTING IN TECHNOLOGIES AND RETHINKING WORK TO FUTURE-PROOF THEIR ORGANIZATIONS.

Fundamental aspects of health care organizations' business models are rapidly changing, the most obvious being tech-enabled care delivery, revenue sources, and way of working. Many interviewed CFOs discussed how their future revenue models will no longer be the same. Their typical business model of capturing revenue from inpatient hospital stays (for health systems) and premiums (for health plans) might no longer work.

Capital spending outlook is often considered a barometer of change in organizations' business models. In our prior survey, several finance leaders mentioned they were pausing major capital expenditure programs amid financial uncertainty. This year, however, a much higher proportion of finance leaders than last year are planning to increase capital expenditure aligned to their major organizational priorities of boosting growth, managing costs, and addressing larger societal issues. Their key areas of focus include:

Technology as a priority: Technology investments—digital technologies and core business technologies—are top capital spending priorities (figure 2). Finance leaders identified them as top priorities in 2020 and 2021. As organizations grapple with volume concerns, interviewed finance leaders discussed investing significantly in alternate care models and sites to boost growth. This includes virtual health, remote monitoring, and hospital-at-home as critical parts of their next-gen care delivery strategy.

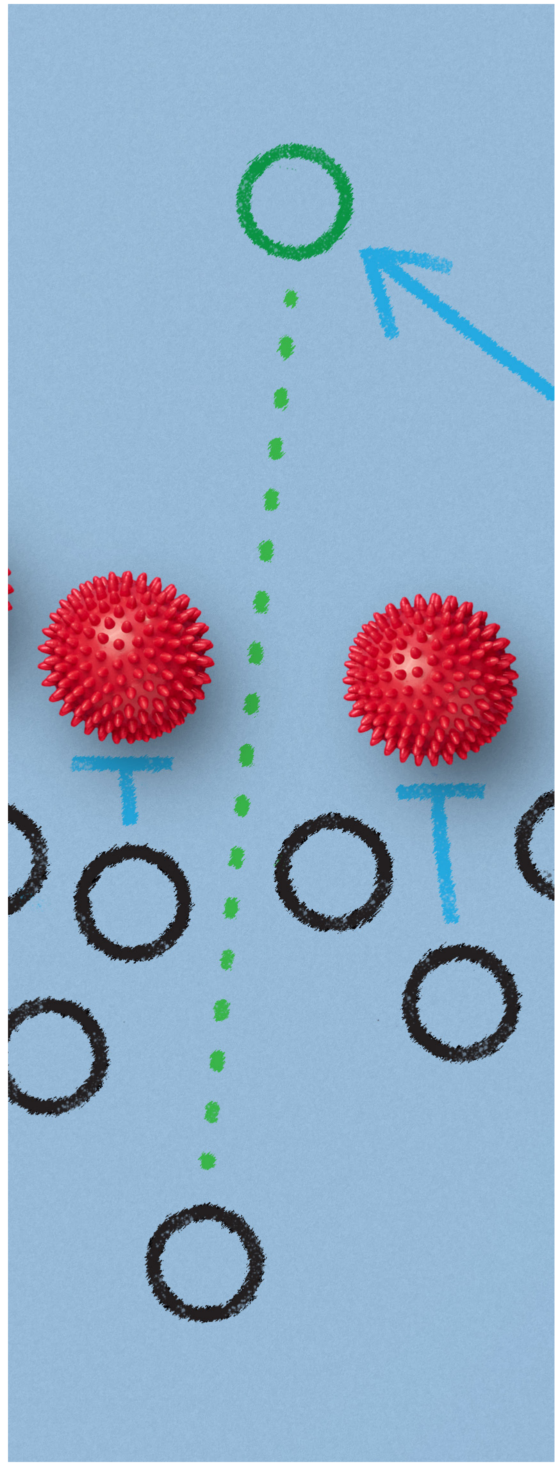
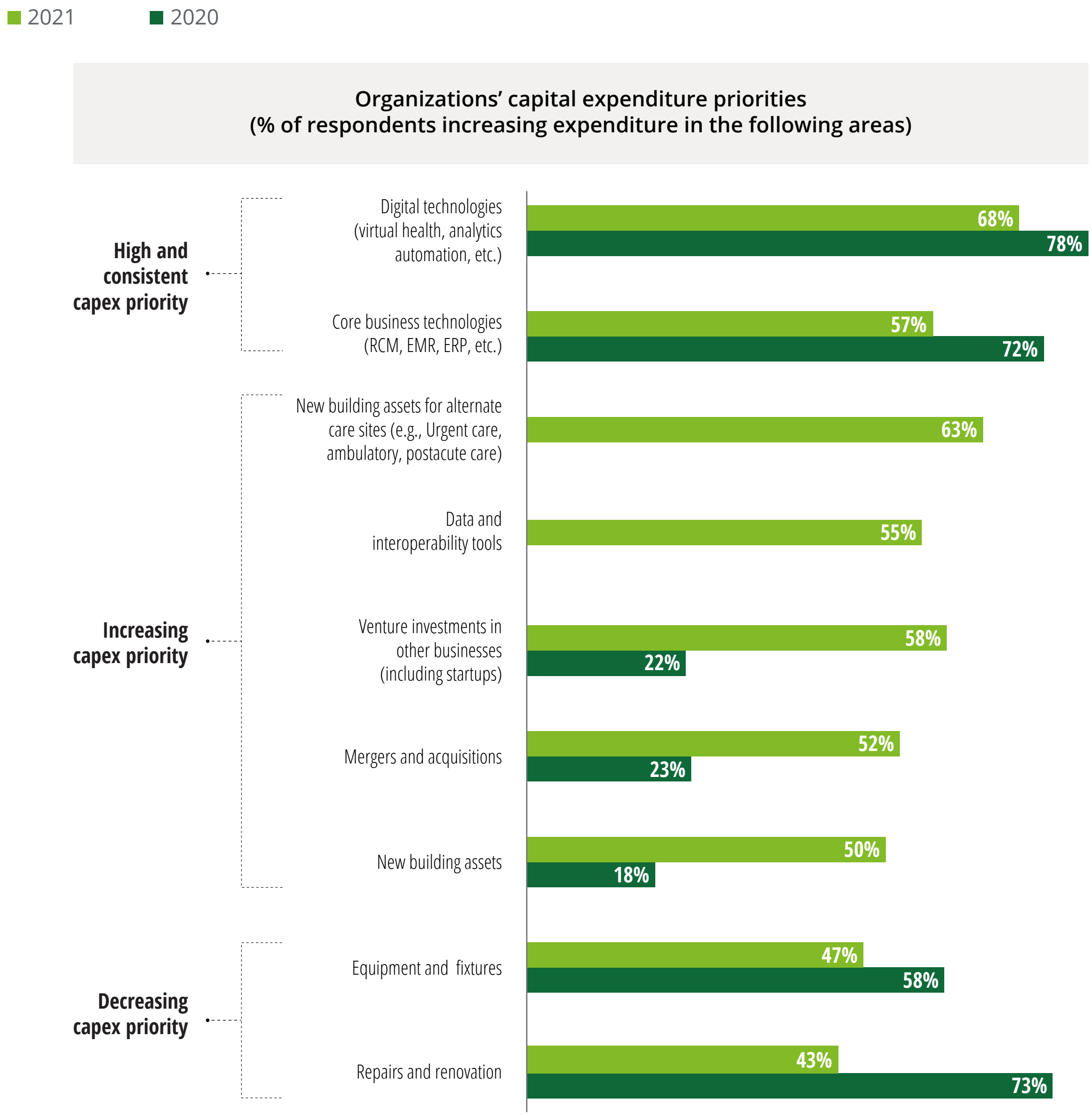


FIGURE 2

Digital and core technologies continue to be top capital expenditure priorities

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



Note: The options "New building assets for alternate care sites" and "Data and interoperability tools" were not asked in the 2020 survey; N=60.
Source: Deloitte 2021 US Health Care CFO survey.

In addition, they are investing in core technologies to not only create efficiencies and cut costs but also to support business transformation. Cost efficiencies have always been a priority, but CFOs are now looking to new strategies that have the potential to overhaul the way they do business. For instance, during potential M&A discussions, one of the biggest issues they try to address is whether technology integration may be an accelerator or a barrier to efficiencies. In addition, CFOs discussed addressing supply chain issues structurally after a challenging last year that increased supply costs dramatically. Organizations are now layering sophisticated analytics and a cloud-based approach to their enterprise resource planning systems to help them address pricing, vendor issues, and other supply chain bottlenecks in real time.

> **"In the last six months, we've looked at the technology front as a way to become more efficient and effective. I would say now it's not always about efficiencies but it's about doing things in a better way structurally."**
>
> — CFO, integrated delivery health system

More resilient workforce: Several health care organizations quickly arranged for their nonclinical (and some clinical) workforce to work remotely during the pandemic. As facilities and businesses now begin to reopen, interviewed CFOs discussed adopting an increasingly hybrid future of work and workplace. Many CFOs discussed how they will be virtual-first and work with employees to bring them together for important milestones and activities such as annual planning exercises and townhalls. Many of the health plans that used remote work before the pandemic were looking to leverage it even further. Employee motivation, engagement, and empathy will be key drivers in assessing the right balance, according to the CFOs.

The hybrid model will require balancing capital on two fronts: technology and real estate. From a technology perspective, CFOs' immediate priority is better hardware for remote staff (e.g., laptop devices) and Wi-Fi as well as current collaborative and productivity software tools to ensure they have the right KPIs to assess their benefits and impact on employee engagement. In our recent research on future of work, health care employees and chief human resource officers alike discussed the importance of the right collaboration and productivity tools to remain engaged. From a real estate perspective, some CFOs discussed a few employee cohorts eventually returning to physical offices. Many organizations are planning to restructure their office spaces to make them more personalized yet collaborative and digitally enabled, keeping employee preferences in mind.

In addition, CFOs also pointed to a need for enhancing automation capabilities with better and faster ways of capturing and reporting data.

HEALTH EQUITY IS AMONG TOP ORGANIZATIONAL GOALS, AND FINANCE LEADERS ARE FOCUSED ON THEIR ROLE IN IDENTIFYING OPPORTUNITIES AND SUPPORTING INITIATIVES.

Sixty percent of the surveyed finance leaders identified addressing health disparities and improving health equity as significantly important to their organizational strategy. Interviewed leaders described their organizations' work to address health equity in their communities over many years but admitted that most efforts were considered side projects or were on a small scale. Many acknowledged that the disparities uncovered during the pandemic and by the social justice movement put a spotlight on how much more work needs to be done. Both surveyed and interviewed finance leaders said that their specific role in health equity initiatives for their organization was to help identify opportunities to achieve scale and sustainability. They viewed their roles as partnering with other leaders to determine the best ways to invest their resources and strategically partner with others. As one CFO put it, *"The CFO can be the glue to try to bring dollars together on a larger scale in a more focused way."*

> **"Health equity has always been there within the mission of our organization, but we're much more verbal and vocal about that now."**
>
> — CFO, national health plan

CFOs discussed three priority areas for their role in health equity:

- **Aligning investments with health equity goals:** Eighty-five percent of surveyed CFOs said they were prepared to align investments with their organizations' health equity objectives. Interviewed CFOs discussed the importance of funding to scale up efforts meaningfully. In the words of one finance leader, "We've got all these great awards for programs, and we have made a real difference but now the question is making these programs available at scale, and we have spent a lot of time talking to each other, helping each other carry out initiatives, but you really have to see how you can touch more people. That's my biggest priority right now."

- **Improving diversity and inclusion in the finance workforce:** Eighty-five percent of CFOs said they were prepared to improve diversity and inclusion in the finance function's workforce. Some key efforts include increasing diversity within finance management ranks to match the organization's overall workforce and ensuring they are recruiting a more diverse talent pool. The trend toward virtual-first is an opportunity to attract more diverse candidates, according to the interviewed CFOs.

- **Compliance and reporting of health equity initiatives:** Interviewed leaders consider their foremost function as data, analytics, and reporting stewards for all initiatives, including health equity. They discussed ensuring oversight and focusing on compliance and risk mitigation through regular board reporting. In addition, many said they were creating and reporting appropriate metrics to measure the performance and impact of health equity initiatives. For instance, one CFO mentioned maintaining and reporting on measures such as patient engagement scores and physician engagement scores for patient cohorts by race/ethnicity, which had never been done before.

AS BUSINESS MODELS EVOLVE, FINANCE LEADERS ARE BROADENING THEIR RESPONSIBILITIES AS STRATEGIC ENABLERS

Many interviewed finance leaders noted that though their role has been changing to a more strategic one for several years to help their organizations navigate key strategic priorities, they expect that evolution to accelerate due to the pandemic. They said the traditional role of finance—reporting monthly, quarterly, and annual performance—was no longer their main focus. They discussed how they created a strong team focused on controllership and the "backward view" aspects of finance, freeing CFOs' time for forward-looking and strategic activities.

> **"The people who come out of these situations the strongest are the ones who are actively thinking about what to do, how to react to different changes, and how to tweak strategy ... with a forward-thinking approach."**
>
> — CFO, large regional specialty hospital

In our survey, 77% of finance leaders said they were moving beyond the traditional finance function to partner in organizational decision-making to boost business growth. Interviewed finance leaders said they view themselves as a strategic business partner to other leaders in the business, who is involved in decision-making throughout the planning process instead of being viewed as the final barrier to overcome. They described initiatives ranging from business model transformation to digital investments where they played a key role in decision-making.

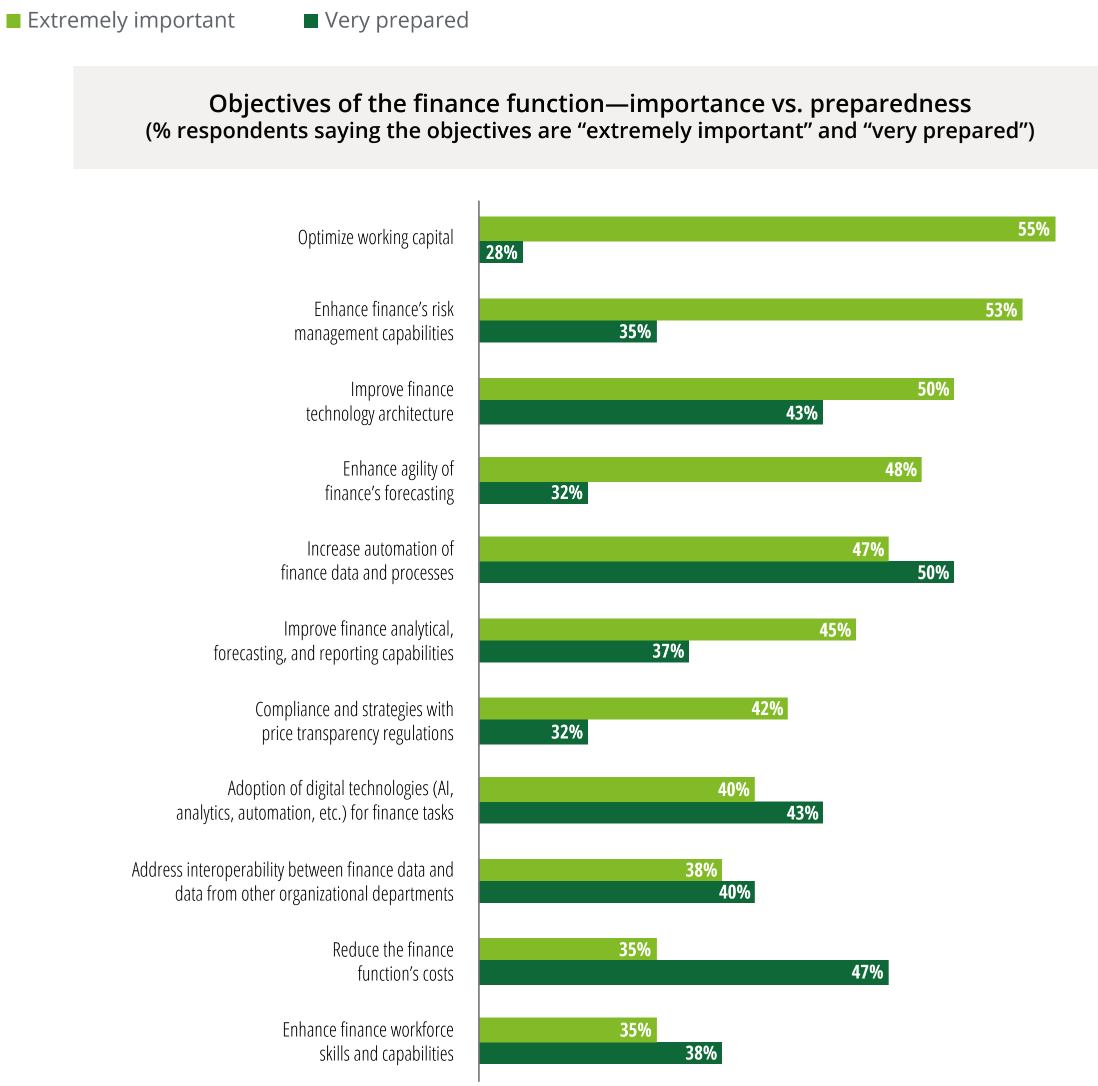
To ensure that the finance function is a strategic enabler to overall decision-making, surveyed finance leaders said they were focusing on making the function ***agile*** (optimizing working capital, enhancing forecasting), ***tech-enabled*** (improving tech architecture, adopting digital technologies), and ***data-centric*** (automation of processes, analytical capabilities; figure 3.)

FIGURE 3

Optimizing working capital, enhancing forecasting, improving technology architecture, and automation are the most important finance goals

Q1: How important are the following objectives for the finance function in the next three years?

Q2: How prepared are you today to achieve the following objectives for the finance function in the next three years?



Note: N=60.
Source: Deloitte 2021 US Health Care CFO survey.

"We are going to do away with the traditional budget and move to quarterly forecasting. This is important to keep us focused on the business at hand and spend more time making things happen as opposed to planning for stuff to happen."

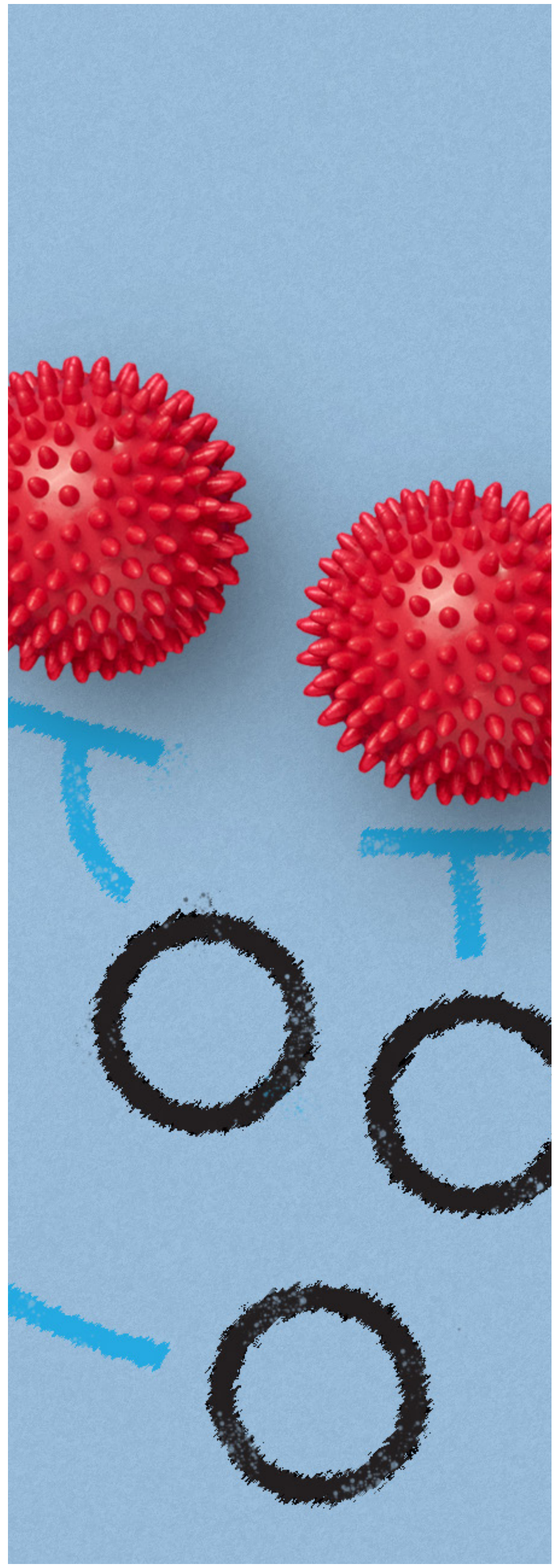
— CFO, faith-based national health system

However, preparedness in these areas varies, with few surveyed CFOs saying they were "very prepared" on almost all the above key focus areas (figure 3). Interviewed executives discussed how uncertainty surrounding their financial planning in 2021 was one of their biggest challenges. Therefore, their immediate focus is on making the function more agile. They said they had shifted to rolling forecasts last year and would continue to do so. This gives them room to make rapid changes to any external and internal sensitivities in these uncertain times. However, they noted that as they redesign forecasting, they are seeking more analytics capabilities in their department.

Conclusion

As finance leaders work on building a more resilient organization for the future, they should consider:

- Prioritizing investment in automation for cost and efficiency
- Developing governance, process, and oversight of new investment opportunities (from digital technologies to health equity)
- Identifying the right set of data and metrics for speedy evaluation and course change if required
- Assessing skills needed in the finance function for new ways of working and strategic mindsets



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