

FEATURE

Findings from the Deloitte 2019 Health Care CEO Perspectives Study

Unique insights from industry leaders

Michael Main, Michael Schwartz, and Wendy Gerhardt

Accelerating change is now a basic feature of the health care industry. Deloitte's discussions with CEOs across the industry offer insights into drivers of change, priorities, and worries and how the definition of success is evolving.

WITHIN THE NEXT 20 years, advances in medicine and technology, intensifying competition to engage the patient/consumer, the explosion and increasing interoperability of all health-related data, a changing regulatory landscape, and new entrants who bring both advanced technologies and an understanding of consumers will transform today's health care landscape. As described in our view on the [Future of Health](#), both industry incumbents and new entrants will shape how the industry will evolve and transform over the next several years.

Major transformation cannot happen overnight and will require visionary leadership, innovative ideas, courage in the face of uncertainty, and persistence. The Deloitte Center for Health Solutions and the Monitor Deloitte Health Care Strategy practice interviewed 25 health system and six health plan CEOs to create the Deloitte 2019 Health Care CEO Perspectives Study that articulates how CEOs are thinking about their changing responsibilities and role in effecting change. Each of the interviewed CEOs leads a large health care organization, with most earning an annual revenue of US\$1 billion or more.¹

Interviewed CEOs say that the most important drivers of change in the next ten years are the shift in care settings, the transition to value-based arrangements, and more proactive consumers. They say these drivers will have a major impact on their profit margins and traditional financial models.

CEOs are rethinking how they define success and create durable strategies amid the perception of a fluid and sometimes unpredictable market. Navigating myriad political, economic, competitive,

social, and market pressures, CEOs perceive that the pace and magnitude of change are greater than ever and will continue to accelerate—a view consistent with the findings in each of Deloitte's last two CEO Perspectives Studies in [2015](#) and [2017](#). The complexity and ever-increasing pace of change is complicating the CEO's agenda and shifting the dynamic between CEOs, boards, and health care organizations' management. CEOs are seeking greater diversity in perspective on executive teams and boards, and so, they are inviting constructive dissent to guard against organizational myopia and groupthink in the face of elusive threats and uncertainties.

Introduction

When Deloitte began its biannual health care CEO research in 2012, the pace of change in the health care industry was still relatively constant and linear, and CEOs saw the notion of *accelerating* change as novel. Seven years later, CEOs see constant acceleration as a basic feature of the industry. To better understand how accelerating change impacts health care organizations and the broader market, Deloitte had one-on-one discussions with CEOs across the industry, where leaders articulated their (1) view of the primary drivers of industry change, (2) evolving definition of success, (3) priorities and in-flight and planned innovation initiatives, and (4) biggest worries. Health care CEOs have a wide range of perspectives both on what the future holds and how they are preparing for it. This document is intended to provide a broad view of those learnings, describe our interpretation of the implications to health care organizations, and invite you to continue the dialog with us.

Findings from the Deloitte 2019 Health Care CEO Perspectives research

CHANGE IS HARD

CEOs largely agreed that the industry faces major change. They rated the shift in care settings, adoption of value-based payment models, and responding to increasing consumer demands as the top drivers of change (figure 1).

More broadly, they told us that progress at their organizations has been slower and harder than expected, and they are now undertaking more

fundamental transformation that is both ambitious and directly challenges incumbent processes, interests, and cultures.

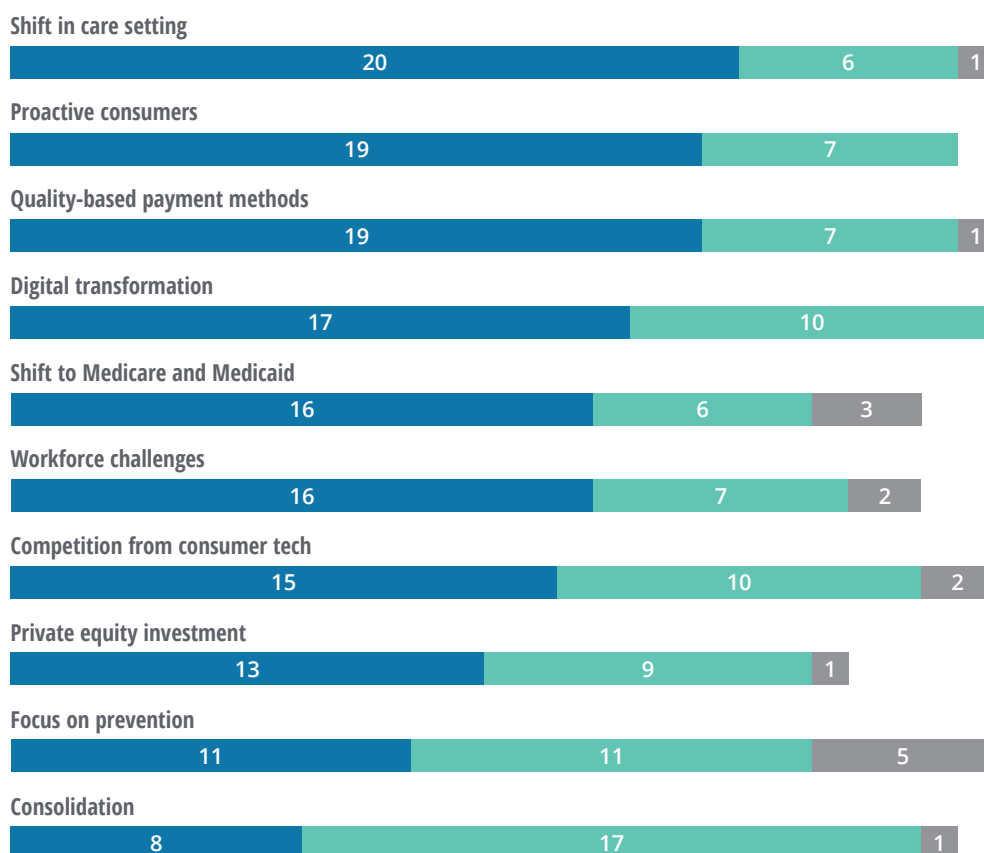
Reducing the cost of care: CEOs have aggressively and systematically reduced cost per unit of service wherever possible. But they encounter systemic barriers to reducing the volume of units of service or creating radical changes in cost structure, including achieving real scale in mergers and acquisitions (M&A), due to:

- The continued prevalence of fundamentally fee-for-service reimbursement (even with performance incentives).

FIGURE 1

CEO ratings of drivers of health care industry change

■ Major ■ Minor ■ No impact



Note: Sample size = 27.

Source: Deloitte 2019 Health Care CEO Perspectives Research.

- The persistence of traditional medical culture and medical education where the majority of training occurs in the hospital and therefore perpetuates yesterday's care model.
- Labor contract terms and regulations that seek to preserve jobs, limit labor market flexibility, and constrain efficiency-generating M&A.
- Certificate-of-need and associated regulatory requirements that impede flexibility in care settings and facility dispositions.

The shift in focus from value-based care to consumer engagement and coordinated care: Many CEOs in our prior studies predicted that they would be much further along in adopting value-based payment models than they are today. They admit now that progress was much slower because efforts are much harder than they had anticipated. CEOs discussed how they are instead shifting their investments to focus on consumer engagement technologies and care coordination models, including virtual health.

Value-based care and alternative payment models are showing no sign of letup from the Centers for Medicare and Medicaid Services (CMS) administration:

"Value-based payment ... is the future. So, make no mistake: If your business model is focused merely on increasing volume rather than improving health outcomes, coordinating care and cutting waste, you will not succeed under the new paradigm."

— Seema Verma (administrator, CMS)²

Organizations investing in consumer engagement technologies, virtual health, and care coordination are well-positioned for the future irrespective of whether reimbursement shifts toward value-based payment models or not. If it does these changes could certainly help; if it does not, these

organizations will likely have a strong competitive edge when it comes to consumers and loyalty.

CEOs AND ORGANIZATIONAL PREPAREDNESS

CEOs admit that the industry is ripe for disruption, but many also strongly feel that their core businesses will remain intact. A few acknowledge that their viewpoint could leave them myopic and their businesses vulnerable to cannibalization.

"Nobody could foresee what Netflix did and ... that's the whole issue with a black swan event, nobody can see it."

— Health system CEO

On whether they felt their organizations were prepared for short- and long-term eventualities, most CEOs agreed that they have much work ahead of them. However, leaders do intend to be "out in front" of the industry's transformation and are developing innovative ideas and strategies across their organizations. Investments in analytics, predictive analytics, interoperability, and big data are primary areas of focus as is diversifying their revenue with new business offerings. Some are pushing hard to be more efficient and improve quality by piloting remote monitoring for chronic disease populations and implementing artificial intelligence, machine learning, and robotic automation.

"We're going to steal from companies we admire and bring them into health care. Why can't we be like the large wholesale retailers? Why can't we be like the TV and movie streaming service companies?"

— Health plan CEO

Some are hoping to take on more risk by forging new competitive positions and partnerships in their markets. Others are focusing on leadership diversity and targeting their efforts to hire innovative thinkers from outside the industry to bring in new ideas. Yet the majority of CEOs

indicate that the “basic plumbing” of integrating, curating, and leveraging interoperable data is yet to be done, and this work is essential for preparing for the future.

CEOs’ CURRENT STRATEGIC PLAYBOOK

With an eye toward the future, CEOs are redrafting their roles, responsibilities, strategies, and relationships with key constituents. In aggregate, participants reported that they are pursuing the following activities as part of their strategic playbook, with no CEO doing all of them.

Institutional agility. The acceleration of change is the everyday normal; CEOs are adapting by focusing on “agile attributes” such as diversity, culture, cloud, and dramatically shorter strategic planning cycles, to position their organizations to win. Many CEOs say that this was their number one focus along with requisite changes to governance and decision-making.

Fiscal fitness. Ability to change depends on modest to strong earnings and balance sheet. Shifts to lower acuity settings and fewer inpatient days, coupled with a lack of operational discipline, is hampering many systems’ ability to invest. Many organizations also face a major shift in payer mix as the population ages and a significant portion shifts from employer-sponsored insurance toward Medicare. Leading CEOs are pulling all levers around organizational efficiency, driving up acuity volumes and maximizing other areas of performance improvement.

Consumer-centricity. As data becomes increasingly interoperable, a seamless, personalized, integrated care experience is becoming table stakes for health systems and plans. A battle for patient relationships is unfolding around consumer touchpoints where both digital and physical assets are relevant to the consumer/patient. CEOs are therefore seeking to engage people holistically and across all aspects of their

care by offering a differentiated consumer experience. CEOs recognize that they are competing in a new landscape, with more and different competitors, compelling health care organizations to deliver an experience that is more convenient to access, costs less, and is highly digital. Younger generations, in particular, are seeking alternative channels and sources for care and health, and CEOs say they need to adapt to better engage with them and compete in the market.

“The consumers are going to demand change. If you just look at how consumer technology companies are mobilizing the consumer there, we’re being driven that way. We are seeing it particularly with the younger demographic. They are going to decide where they want to get their health care. If we don’t hold onto that relationship with the consumer, someone else is going to take it away from us.”

— Health system CEO

CEOs acknowledge outside entrants have consumer and virtual care capabilities and pose a threat to their business. Many told us that these investments today will position them well for the future but recognize that they still have a lot of work to do. Most health systems still have the majority of their business in inpatient hospital services; many still need to become more digital.

“Successful health systems of the future are going to have a distributed large-scale platform of physical locations that have to be very physician- and ambulatory-focused. However, they also have to have a very large digital platform and digital capabilities and keep digital relationships. We think the organizations of the future are going to have both, not just one or the other.”

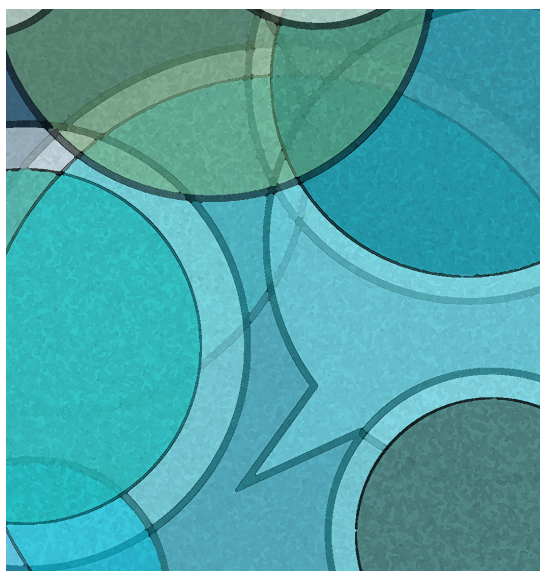
— Health system CEO

The most innovative CEOs are investing heavily to bring the customer experience in health care closer to the standards set by other industries, and they point to other industries as examples to be followed. Their focus is on making the customer experience seamless and personalized. But this is hard to accomplish and hard to measure because:

- Data is still fragmented and siloed across the delivery system and among health systems, health plans, pharmacies, social services agencies, and other players.
- Plans and providers, in particular, still resist sharing data and aligning incentives.
- The culture of health care is not customer-driven in the same way as other industries, nor is health care as facile as other industries at using technology to enhance the customer experience.
- The value of better customer experience is largely enjoyed by the consumer in the form of lower opportunity costs—greater convenience, lower search costs, less “fighting with the system”—that are not easy to quantify.

Next-generation technology. CEOs expect ubiquitous change to happen when technology is integrated into life, work, culture, and their organizations. Leading organizations are establishing specific investment funds for this purpose, with a focus on building smart hospitals and networks, as well as fully integrated technology solutions across their service area, providers, and consumers. Health plans are focused on investing in technology to better enable consumer engagement and leverage their vast data.

Minding the market. Much skepticism exists around private equity (PE)—and venture capital (VC)—backed startups, but CEOs know that history is littered with organizations that failed to see systemic change. We also heard a range of attitudes



about new entrants to the industry. Many see the large retail and consumer technology companies as minor threats, not disruptive. Even as some CEOs feel that their core business—inpatient hospital services and caring for the sick—will remain intact, others noted that disruption that involves incumbents that were not recognized as serious threats could be the most damaging.

CEOs also describe the countervailing and, perhaps, competitive force of new market entrants and unprecedented continuous economic inflow into health care startups. Most CEOs have watched these events closely over the last ten years and many say they are skeptical about how much new players will impact their business.

- CEOs are watching, but few are worried based on what they’ve seen so far.
- They believe that nontraditional entrants will focus on capturing low-hanging, low-margin fringes of the market instead of bringing about systemwide change.
- They are skeptical that new entrants will be able to replicate decades of experience in taking care of sick people.

"In the short-run, it's going to be groups that come in and provide very low-cost alternatives to things that are traditionally expensive. This will be classic disruptive innovation where things start fairly low on the food chain and then work their way up. [However,] I think most of them are going to have a hard time; they don't know how to take care of sick people. All of us have been taking care of sick people for decades."

— Health system CEO

"Those players [retailers and consumer technology companies] are more agile. They are larger. They've got bigger balance sheets. There's a lot of idle cash, all of which is creating a perfect storm."

— Health system CEO

"It's the disruptive innovators that are thinking clearly about what the future care model will look like. It's the large retailers and consumer technology companies that look at health care and will say you haven't created a good shopping experience. You haven't transparently compared costs and quality between purchasing options. You're hard to use. You're complex. You're not digital—all the things that make them great in their own industry. They'll bring them to health care, and they should. Disruptions will come from the outside if the pace and magnitude of change doesn't accelerate from within."

— Health system CEO

Some do not see outside entrants as a competitive threat because CEOs perceive that new entrants lack deep knowledge about the industry. These CEOs say that they are keeping an eye on the actions of large retailers and consumer technology

companies but are not adjusting the course of their own organizations.

Other CEOs view the outside entrants as stepping into the industry at a time when it is ripe for disruption. They say the large retailers and consumer technology companies are well-positioned to leverage their consumer and data expertise and scale. CEOs say it is a call to position themselves better or risk being disrupted. These CEOs are actively preparing their organizations to address competition from new entrants.

Push toward value. Value-based care is coming slower than desired. CEOs prefer to set the course themselves with regard to regulatory mandates, given the "high cost" of compliance, but recognize that CMS, Congress, and the states will likely be the key drivers of migration to value.

Future of work. While leaders are focused on better engagement with their existing talent, they recognize that "work" itself is ripe for disruption and are exploring ways to reshape their people, processes, and nimbleness. Automation and cost efficiencies through technology are a focus. Many are recruiting from outside industries to bring new ideas and out-of-the-box thinkers to their organizations. They are also focused on retention and training of current staff to better engage and prepare them for the future.

Managing scale. CEOs almost universally articulate an evolving notion of scale and its importance. On the one hand, they follow a concept of "local scale" that suggests a minimum market share required to support the full set of care delivery and care management capabilities needed to compete successfully and sustainably in a given local market. On the other, they also acknowledge that some functions can only achieve real scale regionally or super-regionally. Both considerations drive them toward growth and M&A. Not a single CEO we interviewed—of both health systems and

health plans—told us they don't need to get bigger. And all said they need to expand and deepen partnerships. CEOs know they can't deliver alone. They agree M&A will continue, but not as rapidly as in the past. The goals of M&A also are different now.

The majority of CEOs say that local market dominance is most important. They want to become a full system of care with the entire continuum of care and broader geographic reach and population. Few also acknowledged that not everyone who wants to grow can (there is a finite market and a number of regulatory hurdles). That said, CEOs, mindful of the hard work of capturing scale from size, say they have learned that size does not always result in scale efficiency and therefore are being more judicious in their approaches. They see collaborations and partnerships (including with non-health care entities) as important alternatives to full mergers to maintain growth and relevance.

"Getting bigger isn't market leadership or relevancy. When I look at some of the bigger health systems, they really haven't been able to leverage the relevancy, and even some of them haven't been able to leverage the scale."

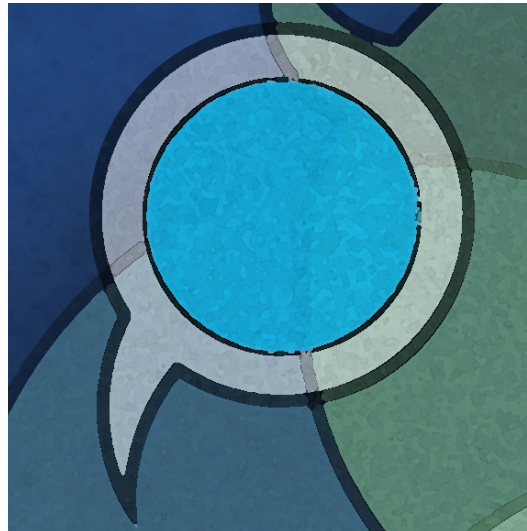
— Health system CEO

Ultimately it is the ecosystem. Across these strategies, CEOs know that local scale, market share, and the right partnerships will shape the emerging ecosystem and improve their system's ability to grow and serve their communities.

Working with the whole ecosystem—payers, providers, schools, public health organizations, and other community organizations—leading CEOs are significantly expanding their reach and influence.

Where do you play?

Naturally, health system leadership teams want to know how they compare with other health systems and with health plan CEOs and vice versa. The graphic below illustrates how health care organizations can choose their strategies along the



dimensions of geographic presence (national vs. local) and market structure (concentrated vs. fragmented). CEOs should assess their current and desired positions (figure 2).

Like a good athlete, however, having the characteristics of a star performer alone does not guarantee success. You have to execute. Strong leadership,

discipline, sense of timing, and agility—as well as a willingness to take risks—are important. By contrast, having a strong will, without requisite characteristics may not lead to meaningful, durable change.

CEOs with the most progressive ideas about change said they want to remain focused on creating a legacy of leadership while building their organizations and strengthening their leadership muscle. Part of this legacy is surely institutionalizing good strategy and decision-making habits at the leadership and board levels.

FIGURE 2

Where do you play?



Source: Deloitte analysis.

Managing cognitive biases. During this time of accelerating innovation, looming disruption, and unprecedented market uncertainty, organizations, like individuals, are vulnerable to systematic cognitive biases that can result in poor decision-making. Based upon our experience, leadership teams and boards are prone, for example, to:

- Anchoring on the self: Seeing the world through the eyes of the organization and peer incumbents, not reframing to adopt alternative perspectives, other industries, disruptors, customers.
- Confirmation bias: Conducting research or analysis that confirms and reinforces preexisting views and suppressing work that challenges those views.
- Tunnel vision: Considering too narrow a set of frames, methods, alternative scenarios, or strategies.
- Low volume/low frequency: Too quick to decide, too slow to rethink, adjust, change; not enough cycles of forecasting, modifying assumptions, questioning, revising incrementally.

- Outcome orientation vs. process orientation: Too focused on whether forecasts and decisions turn out to be right or wrong, not focused enough on the underlying quality of the decision-making process.

Among the techniques that we have found in our experience to be most effective in combating these systematic biases is routine, aggressive use of scenario-based planning, market sensing, and simulation. Engaging leadership teams and boards in the development and refinement of future scenarios; incorporating up-to-the-minute sensing of early indicators of change in the competitive landscape; and using computer models to simulate alternative scenarios and actively, experientially engaging executives and board members to test assumptions and see their implications, can enable leadership teams to learn to question their own biases and reflexes continuously and collectively.

Managing capital investment and operating cash flow. All incumbent organizations walk a tightrope, maintaining operating cash flow in the core business and reinvesting in transformation and growth. Focus too much on the future and you run out of cash; focus too much on the present and you may not adapt and survive.

- Transformation and growth: Organizations need formalized structures and processes for the transformation of core business and investment in new businesses. They need rapid-response teams that can assess investment opportunities, investment funds that are protected from quarterly earnings pressures,

and decision processes unconstrained by the incumbent organization.

- Core operations: Organizations should think strategically about scale and relentlessly integrate, centralize, and standardize, as they grow. Many organizations are bigger than ever but have not leveraged their size. For many, as revenue-side opportunities narrow, achieving scale is the largest and readiest source of operating cash flow.

At this time, when uncertainty is greater than ever and growing all the time, these two sets of practices—managing cognitive biases at the leadership and board levels and managing the balance between transformational investment and core operating cash flow at the executive level—can be insurance against being blindsided and caught flat-footed.

Conclusion

Like persistent and never-ending ocean waves, sometimes fast and big and sometimes gentler, the forces of health care change are nonlinear and unrelenting. Forged by the acceptance of market forces, CEOs recognize that staying the same is an untenable option. Managing increasingly dynamic agendas, CEOs are balancing near-term performance and bond ratings with more aggressive investments designed to shelter them from decay and position them to emerge victorious in the journey to the future.

Endnotes

1. Medicare Cost Report data, 2017; NAIC filings, 2017.
2. Michael Brady, "Americans 'fed up' with high healthcare costs, surprise billing, Verma says," Modern Healthcare, September 10, 2019.

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PROJECT TEAM

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About the authors

Michael Main | michaelmain@deloitte.com

Michael Main is a managing director, Deloitte Consulting LLP, in Monitor Deloitte's Health Care Strategy practice. His leadership across corporate strategy, growth, and architecting the health plan and health system of the future is founded in deep industry expertise. Main has supported CEOs, boards of directors, executive teams, and functional leadership to enable new care model innovation. He is located in Denver. Main holds an MBA from the Kellogg Graduate School of Management at Northwestern University and a BS from Kent State University.

Michael Schwartz | mischwartz@deloitte.com

Michael Schwartz is a specialist executive with Monitor Deloitte, Deloitte Consulting LLP, where he is a member of the Health Care Strategy group and coleads the Research Leaders subsector practice. He has extensive experience in enterprise and business-unit strategy, innovation, and organization strategy, having worked across all areas of the Health Care Ecosystem. Schwartz graduated magna cum laude from Cornell University in the science, technology and society program, received an MS in biochemistry from UCLA, and an MBA from the University of Chicago. He is located in San Francisco.

Wendy Gerhardt | wgerhardt@deloitte.com

Wendy Gerhardt, Deloitte Services LP, is a senior manager with the Deloitte Center for Health Solutions. She is responsible for conducting research to inform health care system stakeholders about emerging trends, challenges, and opportunities. Prior to joining Deloitte, Gerhardt held multiple roles in strategy/planning for a health system and research for health care industry information solutions. She holds a BBA from the University of Michigan and an MA in health policy from Northwestern University. She is based in Detroit.

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Practice leadership

Michael Main

Managing director | Monitor Deloitte | Deloitte Consulting LLP
+1 630 452 4200 | michaelmain@deloitte.com

Michael Main is a managing director, Deloitte Consulting LLP, in Monitor Deloitte's Health Care Strategy practice.

Michael Schwartz

Specialist executive | Deloitte Consulting LLP
+1 415 783 6842 | mischwartz@deloitte.com

Michael Schwartz is a specialist executive with Monitor Deloitte, Deloitte Consulting LLP, where he is a member of the Health Care Strategy group and coleads the Research Leaders subsector practice.

The Deloitte Center for Health Solutions

Sarah Thomas, MS

Managing director | Deloitte Center for Health Solutions | Deloitte Services LP
+1 202 220 2749 | sarthomas@deloitte.com

Sarah Thomas is the managing director of the Deloitte Center for Health Solutions. Her role involves driving the center research agenda to inform stakeholders across the health care landscape about key issues and trends facing the industry.

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