



Lens into the future

Health system CEO interviews

Insights from the Deloitte Center for Health Solutions 2015 Survey of US Health System CEOs

Executive summary

Hospital and health system CEOs understand that they face unprecedented changes and a dramatically different market in the coming decade. CEOs recognize that, to be successful, they need to choose a path forward now and that their organization will likely require new capabilities to meet anticipated challenges. To gain a lens into the future, the Deloitte Center for Health Solutions interviewed 19 CEOs of large hospitals and health systems (greater than \$1 billion in revenue) during late winter and spring 2015. The interviews provide insights into what is top of mind for CEOs regarding the current state of the industry, and their expectations and plans as they look to the future. The findings indicate that there are many paths forward, and most interviewed CEOs are experimenting with new strategies to determine how to best position their organization for success.

By 2025, the interviewed CEOs anticipate that:

- Value-based care (VBC) will reshape the future of health care. Hospitals will be paid differently, making profitability harder to achieve. Most services will be outpatient or home-based. CEOs expect VBC to drive further consolidation (e.g., acquisitions, affiliations) among hospitals and physicians because it has the potential to improve access to capital, increase market leverage, and expand capabilities, which are believed to be needed to be successful in VBC contracting.
- Consumerism and the need to be more customer-friendly are part of the future. Hospitals will have to be more accessible, transparent, and offer services and interactions when and where the consumer desires.

Most of the interviewed CEOs agree that the following are their biggest challenges:

- Finding the resources to invest in VBC and consumerism, which is particularly difficult when margins are tight. Investments may include developing a clinically integrated network, partnering with others, changing practice patterns, and developing and analyzing data. Being more consumer-centric may include investments in care redesign, e-visits, expanded hours, and staff training.
- Talent is critical. Hospitals need more innovative leaders and clinicians, and are recruiting more technology, data scientists, and analytics staff.

Interviewed CEOs indicated that their biggest needs for navigating towards 2025 are:

- Preparing for VBC: CEOs are not sure when to shift the business model and whom to partner with to be successful in VBC.
- Identifying the right investments, particularly for VBC-enabling technology: CEOs know they need to analyze and act on data to improve quality, change practice patterns, deliver population health, and offer e-visits. However, they are not yet sure which strategies will produce results.



Interviewed CEOs believe that they must choose a path forward. Many CEOs are near the end of their tenures,¹ making it especially challenging to plan for a future that may not include them. The findings from this survey are intended to help CEOs “pass the baton” by providing their peers’ insights into needed investments, suggestions for surmounting challenges, and a lens into the future role of hospitals in the health care ecosystem.

Many CEOs are still on the sidelines while others are experimenting with VBC, consumerism, and enabling capabilities such as analytics. No one has yet jumped in with both feet, and some are still determining their best path. There are as of yet no best answers, as different market situations call for different solutions. CEOs should consider continuing current efforts, such as:

- Experimenting with VBC payment models, contracts, and related cost and quality improvements
- Seeking partners to add capabilities, gain efficiencies, and develop broader networks
- Investing in new capabilities (e.g., analytics), new revenue streams, and performance improvement
- Learning from other health care stakeholders who are achieving success in VBC as well as those in other industries who are demonstrating transformation, innovation, leadership, and customer service

Who are today’s hospital CEOs?

Jane, 55, is the CEO of a multi-hospital health system in the Midwest. After obtaining her masters of health care management degree, dedicating thirty years to her career in hospital administration, and progressing to the role of CEO, Jane finds herself thinking ahead to retirement.² She is determined to find a replacement to continue her health system’s success before she retires in the next five years.³

Jane realizes that she will step down during a time of unprecedented change in health care. Payments are shifting towards rewarding value over volume, the payer mix is evolving (narrowing profit margins), new technologies are transforming how and when care is delivered, and industry observers are calling for health care to be more responsive to consumers. Jane knows that her successor will need to lead the health system to innovate and change, a culture that board members, physicians, and staff will need to embrace.

Jane’s experience represents that of today’s typical US hospital CEO. During a time of rapid industry transformation, these CEOs face the pressure of preparing for an organizational future in which they may not be included.⁴ A survey of 19 hospital and health system CEOs by the Deloitte Center for Health Solutions provides a lens into how CEOs like Jane envision the future, are planning ahead, and steering their organizations towards success.

Survey methodology

Between January and April 2015, the Deloitte Center for Health Solutions interviewed 19 hospital and health system CEOs. Interviewees were from large (total patient revenue greater than \$1 billion) academic medical centers (AMCs), non-profit health systems, children’s hospitals, and Catholic health systems. The interviews focused on how CEOs are assessing and preparing for the future. Interviewees’ responses were anonymous. This qualitative report is based on content analysis of verbatim responses using a standardized approach to cluster the findings. (See appendix for further methodology details.)

What challenges do today's hospital CEOs face?

While hospitals have dealt with new regulations and declining payments, today's CEOs face many unprecedented challenges, among them:

Narrowing margins: After a period of improved margins tied to US economic gains, many hospitals again face tightening margins. The percent of hospitals with a negative operating margin grew from 2012 to 2013 (Figure 1) and average operating margins declined during this same period (Figure 2). The trend is expected to worsen given government budget pressures and the desire by payers (employers, government, health plans) to reduce costs.

Shift towards VBC: VBC payment models shift hospitals and physicians away from the traditional fee-for-service (FFS) payment system to one that focuses on quality and cost efficiencies. This includes the pressure for hospitals and physicians to take on financial risk for patient care. VBC adoption is increasing in various US markets, and this may require some hospitals to change how they currently do business.⁶

Growing consumerism: Today's health care consumers have different expectations than in the past. They are no longer patients willing to accept hospital- and physician-centric business models. Consumers now seek better access to care, more involvement in care decisions, and improved customer service. Respondents to the Deloitte Center for Health Solutions 2015 Survey of US Health Care Consumers cited the treatment process, customer service, and other points of interaction as the largest drivers of their dissatisfaction with hospitals (Figure 3).

Downward trend for hospital operating margins⁵

Figure 1. Percent of hospitals with negative operating margin

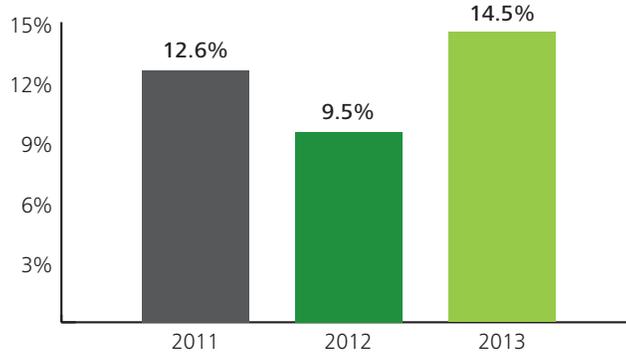
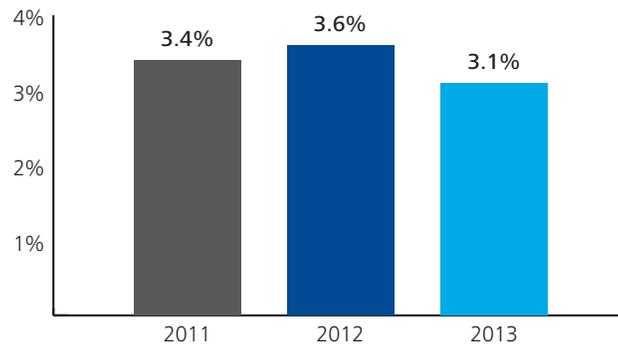


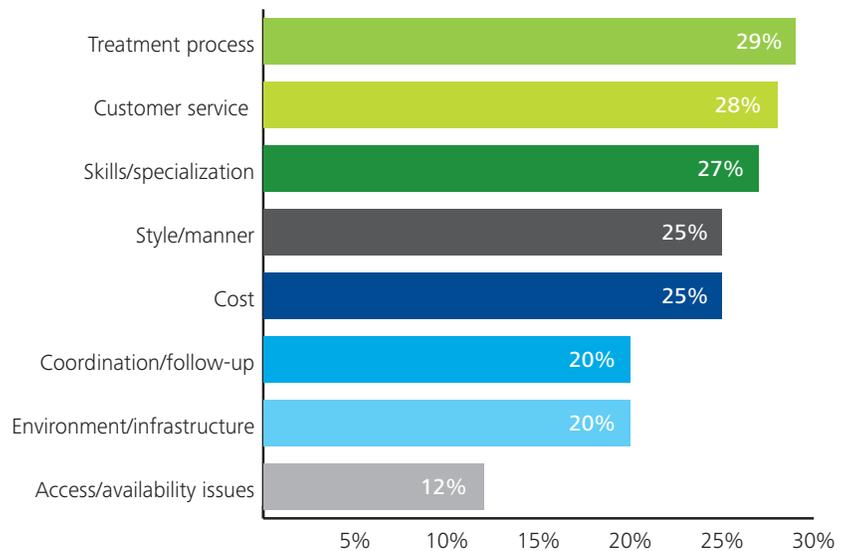
Figure 2. Average hospital operating margin



Source: Modern Healthcare

Figure 3. Consumers dissatisfied with their hospital experience due to interactions and treatment⁷

Percent of consumer respondents selecting reason for being less than satisfied with their recent overnight hospital stay



Source: Deloitte Center for Health Solutions 2015 Survey of US Health Care Consumers

What are hospital CEOs thinking about?

Across all of the interviews, CEOs agreed that they currently face more and different challenges than in any other period during their health care careers. Top-of-mind issues are preparing for VBC, maintaining margins amid unprecedented financial pressures, and determining their consumer strategy. Related is the need to identify the right technology and talent strategies to capitalize on (or even survive) anticipated market changes.

VBC

VBC is the most important trend facing hospitals over the next ten years, according to the interviewed CEOs. They said that VBC will upend traditional business models as payers push providers to accept VBC payments based upon cost efficiency and quality. As a result, health systems will likely need to respond by reducing inpatient utilization and demonstrating better outcomes. CEOs expect that in 2025:

- **Hospitals will take on significant financial risk for patient care**, either through contracts with payers (health plans, employers, Medicare/Medicaid) or becoming a payer (as an Accountable Care Organization [ACO] or a health plan) as well as a provider.
- **Much larger health systems will exist following consolidation** — traditional mergers and acquisitions (M&A) and other types of partnerships, affiliations, and collaborations — among hospitals, physicians, and post-acute providers.
- **Outpatient care will be the main service focus**, and inpatient services will become a cost center rather than the economic engine it has been.

- **Alternative approaches to care will be prominent**, including the use of nurse practitioners, physician assistants, home-based care, retail settings, and virtual care.

The biggest challenge noted by interviewed CEOs when preparing for 2025 is that they believe they must invest in VBC capabilities even as much of their existing business is still oriented towards traditional FFS payment models and incentives. Needed capabilities likely will include:

- Analytics to manage population health
- New enabling technologies, such as e-visits and data sharing
- Information requirements for quality reporting and communication across multiple caregivers

To move towards a VBC world, interviewed CEOs' near-term priorities include forming partnerships and affiliations to grow their networks. Notably, AMC and children's hospital CEOs prefer to remain independent as long as possible, yet they also want to be part of an integrated network. CEOs should consider what relationships they form and how they will deliver VBC.

Equally challenging over the next few years, according to the CEOs, will be managing through change resulting from consolidation. Integrating and aligning departments and functions within new, large health systems may be difficult given different health information technology (HIT) systems and cultures. The sheer size of the new organizations may also make implementing change complicated.

“There is an accelerating move towards value-based reimbursement and I hope ... we would move to the point where that's the norm as opposed to the exception.”

— CEO of non-profit health system

“Everybody is talking about value-based medicine ... If we get there, we are going to have systems of care competing on quality and costs, but it'll have to be systems.”

— CEO of academic medical center

“Many of the things that are dealt with today in the hospital will be managed in the home or some other ambulatory type setting.” — CEO of Catholic health system

Performance

From the interviewed CEOs' perspective, the biggest challenge today and the critical focus for the next 10 years will be managing margins to fund growth. To deliver performance in the next decade, CEOs recognized that their organizations need to:

- Deliver care effectively and efficiently
- Be financially viable to make investments in care quality and management
- Manage declining reimbursements due to the shift from inpatient to outpatient care and changes in payer mix
- Use technology, such as analytics and data sharing, to manage and treat specific populations

The CEOs noted that developing a strategy around investment, innovation, and development of new business models while margins shrink is a challenge for many organizations. Interviewed CEOs noted three priorities for addressing performance by 2025:

- **Becoming more cost-efficient** and continuing to respond to shrinking margins.
- **Determining how to approach consolidation and a shift in scope of services** to gain efficiencies in the cost and delivery of quality care. Larger organizations will likely exist, either aligned through networks or consolidation, and CEOs will need to develop their strategies accordingly.
- **Deciding which services to offer in which locations.** The goal is to minimize duplicative services at multiple locations and to concentrate offerings in the lowest-cost location.

Interviewed CEOs recognized that hospitals and health systems will need to find new revenue sources, expand services, and support their missions. In the short term, they consider focusing on:

- Analyzing cost structures to spread fixed costs over a larger base
- Concurrently monitoring costs, managing risks, and optimizing performance by concentrating on specific patient populations
- Identifying and managing to new success measures, including covered lives, outcomes, and pricing
- Navigating growth and bolstering capabilities — data, enabling technologies, and population health

“The thing that keeps me up at night is maintaining the financial strength of the organization ... As the market continues to consolidate, your financial performance is an important factor in your ability to grow as an organization in order to be an attractive partner for others. Maintaining financial strength and operational performance in a state of diminishing reimbursement in a fee-for-service business is the greatest challenge and the greatest concern for our management team.” — CEO of non-profit health system

“I worry about the future. Will we be able to generate the kind of margins we do now to support the academic missions of this place? And, if not, it's going to be a very different place.” — CEO of academic medical center



Consumerism

More than half of the 19 interviewed CEOs agreed that health care is transforming into a consumer-centric model. Patients are becoming more selective and discerning about their health care treatment, have more financial responsibility, and demand that care be convenient and accessible. Some of the CEOs noted that with new consumer-driven access models, such as retail clinics and team-based settings, care should become safer, less expensive, and more convenient for the patient. Hospitals will likely need to respond by rethinking their care models, changing their cultures, and investing in enabling technologies.

According to the CEOs, re-envisioning the patient as consumer has already begun to change medicine; they expect this evolution will likely continue over the next 10 years. Specific changes include:

- **Patient/consumer first.** Patients will want to be seen within 24 hours of requesting a visit, physicians will need to provide care on weekends, and care settings will be more convenient — even provided at home.
- **Digital technologies will improve access and create new opportunities for patients to see physicians.** Use of video and e-visits will rise, reducing in-person visits to physicians' offices and hospitals.
- **Retail health care practices will grow, as will care by non-physician clinical staff.** Nurse practitioners and others will offer greater scope of services. These clinicians may reduce costs for consumers and be in more convenient locations.

The biggest challenge to a successful consumer-centric care model is changing an organization's culture and staff attitudes, the CEOs reported. New strategies may be needed to overcome resistance to change. Interviewed CEOs indicated that many experienced staff and physicians think that "things are going along pretty well."⁸

Strong leadership is likely needed to motivate employees and staff physicians to change. Industries outside of health care, such as hospitality and retail, have been sources of leading practices in how to connect with and market to consumers in health care.

Another important focus of a consumer strategy according to the interviewed CEOs is improving access. Near-term priorities include:

- Offering more outpatient appointments more quickly, including appointments within 24 hours of request
- Using new telemedicine technologies to connect consumers with physicians remotely
- Allowing consumers to receive care in convenient and comfortable locations outside of the hospital, such as home-based care and retail settings
- Reorganizing care delivery staff to provide a more team-based approach among physicians, nurse practitioners, physician assistants, and other clinical staff
- Improving customer service through training programs and working with teams from other industries, such as hospitality and retail

"As consumers are assuming greater responsibility for the cost of their health care personally rather than a third party, they will become much more of a discriminating consumer." — CEO of non-profit health system

"It will not be 'build it and they will come.' It will be a consumer interface. We have very little consumer-focus in our health care system today. We set up our systems to service ourselves. Physicians have office hours during the week, not the weekends. People want care when they want it." — CEO of Catholic health system

"We are already seeing the full emergence of retail health care practices, and I think that will just grow because of convenience and the fact that consumers will continue to carry most of the cost burden for co-pays and deductibles." — CEO of Catholic health system

"... our next generation will know what they want and how to get it." — CEO of Catholic health system

Enabling technology

According to most CEOs, technology will significantly improve health care in the future, making services more accessible, information more transparent, and clinicians and other staff able to provide better care. Specifically, by 2025, technology will likely support e-visits and allow providers and patients to share information. In addition, health systems and clinicians will likely use analytics to better match treatment to patients, manage population health, and achieve better outcomes.

Interviewed CEOs also envision that “big data” in health care will support breakthroughs in quality, cost efficiencies, and medical research via insights that emerge from predictive modeling with expanded clinical and other data. This modeling may include identifying high-risk populations and forecasting costs or outcomes for specific patient populations.

Technology investments also will likely support health systems’ ability to take on financial risk for populations. Analyzing shared data holds the promise of reducing costs by identifying efficient care patterns and high-risk populations. Many CEOs noted that investing in the technological capability to understand risk associated with managing patient populations is necessary from a cost perspective. And although they do not yet have the capability that they think is needed for success, CEOs expect to use their data more effectively by 2025. Challenges in realizing this vision include:

- Disparate data from which to make decisions
- Incomplete data interconnectivity between health systems and physicians
- Lack of predictive modeling capabilities and experience

Health systems will likely require more HIT, data analytics, and actuarial skills in the future, CEOs noted. In particular, HIT should support the shift from in-person to in-home and community-, clinic-, and retail-based care settings. CEOs’ near-term focus will be on investing in:

- Integrated and interoperable electronic health records
- Informatics capabilities
- Technology to enable cost-effective care delivery (e.g., virtual medicine, e-visits, email)

Of course, to fully deliver on the capabilities resulting from these IT investments, health systems will likely need talent with specific skill sets.

“Technology is going to advance and is going to be part of the innovation to allow providers to take care of patients at a lower cost in a lower-cost setting.” — CEO of academic medical center

“Technology will enable greater communications between patients and providers, which will also be a way to reduce cost because there will be more digital imaging, more video conferencing, and a way of tracking patients through technology. Virtual care will be more prevalent. You’ll have patients who will be cared for without having to be in the same location, as technology advances to allow medicine to be practiced in a different way.” — CEO of academic medical center

“We don’t really leverage technology effectively. We have lots of technology; we have lots of complex pieces of equipment. We are beginning to grow. We are beginning to have more effective information. But, we don’t do predictive modeling very well.” — CEO of academic medical center

“How do we use predictive modeling? That needs to happen in a very profound way. We have lots and lots of data in our systems. We do a very poor job of making it into information or knowledge. So, I think there’s going to be a huge investment and transformation of what we do from physical to analyzing information and creating knowledge out of that.” — CEO of academic medical center

“We’re putting a significant investment into analytics and we’re capturing data, but we are not doing as good of a job on the analytical side.” — CEO of children’s hospital

Talent

Both acquiring and developing talent are critical for success in the new marketplace, CEOs agreed. All of the interviewees cited the following long-term talent priorities:

- Physician/clinical leaders who can connect as peers with other physicians in the organization and help drive culture change. Some CEOs envision these leaders making clinical decisions for the organization, a shift from the current, more disaggregated approach.
- Executive leaders who can apply experiences from other industries to innovate in health care. Leaders who are willing to take risks and move beyond the status quo are in high demand.
- Information technologists, data scientists, and staff with analytics skills who can turn data from multiple sources and technologies into usable knowledge. In addition, individuals with actuarial science backgrounds are needed to help manage population health through predictive modeling.

Interviewed CEOs consistently mentioned the need for leaders to be:

- Innovative
- Visionary
- Risk-taking and entrepreneurial
- Accepting of new care models
- Consumer-focused

CEOs consistently mentioned the need for employees to be:

- Able to navigate change
- Willing to operate as a team
- Engaged and enthusiastic

Today's health care system lacks the risk takers and innovators that will likely be needed in the future, according to the CEOs. Many executives have been "health risk managers" as opposed to "risk takers," noted a CEO of a Catholic health system.⁹ Visionary physician leaders are scarce and in high demand. Some CEOs noted a shortage of data scientists and those with analytics skills in hospitals. Several CEOs mentioned that succession planning is a top talent concern. They seek to identify a successor, develop plans to transition knowledge, and continue to drive the organization forward.

Health systems should focus in the near term on talent development and support to build the workforce they will need for future success, according to the interviewed CEOs. Governance processes and board structures may change to support new leadership and the knowledge required to make difficult decisions. Recruiting talent from outside the health care industry may be a solution. Also, health systems are investing in engagement strategies to encourage positive behaviors and help employees navigate the ever-changing environment.

"We'll have to develop internally clinical leadership to do the cultural changes. That's going to be the scarcest of the skills that will be necessary." — CEO of academic medical center

"The biggest challenge we have is at the leadership level in terms of finding people who have the capacity to envision what the future might look like and drive forward rather than trying to work very hard to maintain the status quo." — CEO of children's hospital

"I think again from a health care system standpoint, expertise we don't have that we will have to expand into is some of the expertise that insurance companies have: How do you manage risk? We don't do that, we build things." — CEO of academic medical center

"We need people who can find and array the information we need and do initial analysis of that information and then we need data scientists who I consider a much higher-end of that capability to take that information and provide a higher level of guidance to us." — CEO of non-profit health system

How should hospital CEOs consider moving forward?

Defining the future is half the battle to succeeding in the future. CEOs like Jane have a clear vision and understanding of the future but also recognize potential hurdles. Many CEOs are near the end of their tenures¹⁰ and, therefore, are likely making numerous personal and strategic decisions.

On a personal level, CEOs are trying to decide whether to retire within the next five years and, in the meantime, position the organization for success in 2025; or to stay with the organization for a decade and be part of that anticipated future success.

On a strategic level, key questions concern which investments to make now, given competing priorities and lower margins. Talent and technology are top priorities and each can require major efforts and costs. How should CEOs pursue these investments to best position their organizations for VBC and an environment in which meeting consumers' demands is an imperative?

The path forward differs for each market and health system. This means that CEOs and their organizations should continue to experiment with VBC models; improve customer service; seek acquisitions and/or partners when appropriate; develop capabilities in analytics and other enabling technologies; and learn from others' successes — both within and outside the health care industry.



Appendix

Survey approach

The Deloitte Center for Health Solutions 2015 Survey of US Health System CEOs is a qualitative survey consisting of telephone interviews conducted between January and April 2015. Questions focused on how CEOs are assessing and preparing for the future, given market trends and health reform initiatives. Nineteen CEOs were interviewed from a cross section of health systems (see Figure 4). The targeted hospitals and health systems were large in size (total patient revenue greater than \$1 billion).

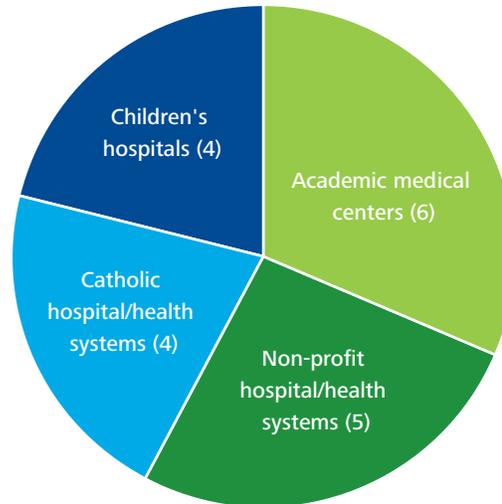
The survey used a standard set of questions. Interviewees' responses were anonymous. The intent was to reflect views of leaders of major individual and multi-hospital systems, looking at the short-term (next three to five years) and longer-term future (2025).

This report is based on content analysis of verbatim responses, using a standardized approach to cluster comments.

Survey questions

1. What top three-to-four major trends will change the landscape the most for your health system in the future (2025 — ten years from now)?
2. In your 2025 vision, what would you expect the scope of operations to be? How is that different from your scope today? And what are the assets/capabilities/key talent that you think that your organization will likely need to deliver on these changes?
3. What are your top three-to-four priorities over the next five years for preparing your organization for the future (2025 — ten years from now)?
4. At a personal level, what is your biggest challenge? How are you coping with these changes and challenges? If you had "magical powers" what are the three things you would do to prepare your organization for the future?

Figure 4. Survey respondents by segment (19 total)



Endnotes

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