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C E O R E P O R T

INDUSTRY SURVEY

HEALTHLEADERS MEDIA 2014

The Winners and Losers of Healthcare Reform

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Perspective

HEALTHCARE LEADERS CONTINUE TO INNOVATE THROUGH UNCERTAINTY

Finally, in 2013, we were assured that the major provisions of the Patient Protection and Affordable Care Act would be implemented, even as enrollment in the healthcare insurance exchanges was slow to take off due to significant technical issues. With most of the uncertainty of the previous year behind us, we spent 2013 resolved to prepare our organizations and our teams for the shift from volume- to value-based care.

The results of the *2014 HealthLeaders Media Industry Survey* confirm this resolve, and it is clear that industry leaders have a firm grasp of how healthcare reform will impact their organizations. Fully 91% of survey respondents cite reduced reimbursements as the No. 1 threat to their organizations, far outpacing concerns about industry consolidation (37%) or healthcare reform overall (36%).

As ever, survey respondents are focused on expense reductions, operational improvements, and greater efficiency to counteract reimbursement reductions. However, what is perhaps more telling are the types of investments healthcare executives are prepared to make to support new care models and to fuel financial growth.

Patient satisfaction figures prominently in this year's results. Even as organizations work to identify the best tools to engage patients, healthcare leaders are ready to place more emphasis on consumer-centric programs designed to improve patient-provider interactions. And as healthcare reform places significant weight on patient satisfaction in overall reimbursement, the majority of survey respondents (62%) confirm that they are preparing to make or increase investments to improve the patient experience over the next three years, topping a list of 10 initiatives.

Moreover, as accountable care organizations and patient-centered medical homes become the norm as models to measure quality and report outcomes, 54% of respondents say they will begin or increase investments in data analytics over this same time period. Clearly healthcare executives understand how data drives the new emphasis on wellness (rather than expensive, acute episodes) and population health management.

This year's survey will give you a sense of the innovation our industry is contemplating to achieve the full promise of an outcomes-based care delivery system while managing costs and meeting the increased demand for healthcare services from newly empowered patients.

There is no question that our industry will experience significant changes over the next three to five years, and these survey results offer valuable insight into how leaders like you are effectively addressing the opportunities and challenges on our collective journey to a value-based healthcare system that works for all Americans.

Stephen Mooney
President & CEO
Conifer Health Solutions
Frisco, Texas

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Methodology

The *2014 Annual Industry Survey* was conducted by the HealthLeaders Media Intelligence Unit, powered by the HealthLeaders Media Council.

The HealthLeaders Media Council comprises executives from healthcare provider organizations who collectively deliver the most unbiased industry intelligence available.

In October 2013, an online survey was sent to the HealthLeaders Media Council and select members of the HealthLeaders Media audience.

A total of 792 completed surveys are included in the 2014 Annual Industry Survey analysis; 113 CEOs are included in this analysis.

The margin of error for a sample size of 113 is +/-9.2% at the 95% confidence interval.

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The HealthLeaders Media Intelligence Unit, a division of HealthLeaders Media, is the premier source for executive healthcare business research. It provides analysis and forecasts through digital platforms, print publications, custom reports, white papers, conferences, roundtables, peer networking opportunities, and presentations for senior management.

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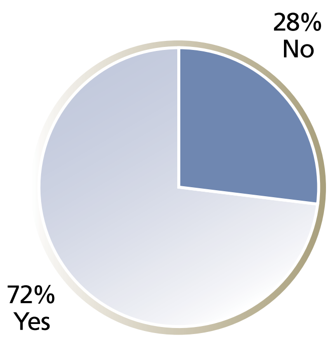
Respondent Profile

Respondents represent CEO titles from across a variety of healthcare provider organizations, including hospitals, health systems, and physician organizations.

Community hospital



Base = 47 (Among hospitals)

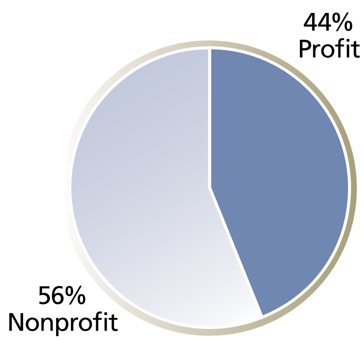
Age

Base = 113

36–45	7%
46–55	33%
56–65	54%
66 or older	6%

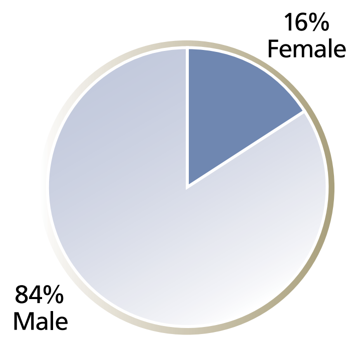
Average age = 56 years

Profit/nonprofit



Base = 113

Gender



Base = 113

Type of organization

Base = 113

Hospital	42%
Health system	24%
Physician org.	23%
Long-term care/SNF	7%
Ancillary, allied provider	2%
Health plan/insurer	2%
Government, education/academic	1%

Number of beds

Base = 47 (Hospitals)

1–199	72%
200–499	19%
500+	9%

Number of sites

Base = 26 (Health systems)

1–5	19%
6–20	35%
21+	46%

Number of physicians

Base = 27 (Physician orgs)

1–9	22%
10–49	37%
50+	41%

CEO REPORT ANALYSIS

As Threat From Reform Subsides, Other Concerns Surface

BY PHILIP BETBEZE

As healthcare reform's gargantuan impact on the industry crystallizes, CEOs have become more polarized than in years past about the direction of the industry. In 2014, fewer CEOs see the current state of healthcare as on the wrong track, at 40% vs. 44% in 2013, but fewer also see it on the right track, at 30% vs. 33% in 2013. More are undecided, at 30% vs. 24% in 2013.

This reflects a realization from CEOs that there will be winners and losers as healthcare undergoes massive change, and that top leaders are starting to figure out in which camp their organization is likely to end up, says Charles Hart, MD, MS, president and CEO of Regional Health, a nine-hospital system in Rapid City, S.D., who served as an advisor for the CEO Report, which is based on CEO-only responses from the *2014 HealthLeaders Media Industry Survey*.

However, those broad strokes of insight into CEO attitudes don't necessarily mean some have developed a fatalistic attitude toward their own organization's prospects. For instance, healthcare CEOs are much more comfortable with the impact of healthcare reform as 2014 begins than they were at this time last year, when nearly half (47%) considered health reform overall to be a threat to their organization. That number

WHAT HEALTHCARE LEADERS ARE SAYING

Here are selected comments from leaders regarding what their organization is doing now to prepare for the eventual switch from fee-for-service to value-based payments, and how that will prepare them for the future.

"We purchased an insurance company and will hire a CEO for the health plan. We formed an ACO, launched a clinical integration model, and we will contract directly with payers for covered lives. We are aligning financial incentives with our physicians around cost and quality. We totally changed the system's overall strategic plan and communicated that throughout the organization."

—CEO for a medium hospital

"We are aligning patient and downstream provider compensation and incentive programs with the ACO/CCO reimbursement model and making major investments in back office enterprisewide analytics and informatics. We are implementing advanced PCMH models and innovative care coordination methods."

—CEO for a physician organization

"We are engaging as many ambulatory care partners as possible. We are looking at how each place of service can be integrated technologically to know where our clients and risks are in terms of physical proximity and health status."

—CEO for a physician organization

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Analysis (continued)

dropped to 38% in the 2014 survey, reflecting a better understanding of the law's effect on their organization, says Hart.

"I think that reflects not so much clarity as it does certainty," he says. "It's so difficult when you don't know what the expectations are. Most of the things that were going to hit hospitals from ACA have kind of happened. You can plan and attempt to budget for it, so it's not really on the front of your radar."

The same doesn't apply for a key outgrowth of the law, the federal and state healthcare insurance exchanges, which, despite the botched rollout in the fall of 2013, still offer an opportunity for millions of previously uninsured to obtain some healthcare coverage. That's seen as an opportunity by most CEOs (56%), even though last year, only 45% of CEOs saw the HIXs as such. Given that healthcare organizations gave up some revenue for the promise of wider availability of health insurance in the construction of the bill that ultimately became the Patient Protection and Affordable Care Act, that's not surprising. "The hospital industry, frankly under duress, took significant adjustments in Medicare payment in exchange for future promises that there will be more insured," says Hart. "Exchanges deal with the non-Medicaid population, so some hospitals see the potential for narrower networks that could drive business gains, and there's new potential revenue from people who have insurance."

Besides that, he says, forward-looking organizations see the exchanges as a business opportunity for helping people buy policies. The federal government, to this point, has offered conflicting guidance on whether healthcare organizations can pay premiums for patients, but even without that tool, says Hart, the exchanges provide another opportunity to help decrease bad debt and charity care.

> "Exchanges deal with the non-Medicaid population, so some hospitals see the potential for narrower networks that could drive business gains, and there's new potential revenue from people who have insurance."
>
> —Charles Hart, MD, MS, president and CEO of Regional Health in Rapid City, S.D.

Compared with the overall results of the industry survey, CEOs are less optimistic about the opportunity to expand into retail-based business lines. While 43% of respondents in general see retail healthcare as an opportunity in 2014, only 34% of CEOs do.

Hart says while he can only speak to his organization's experience and his

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Analysis (continued)

opinion specifically, Regional Health is looking into that opportunity as a growth driver, but is of two minds on whether it's an opportunity or a dead end.

"We're finding that you're up against big strong players with the Walmarts and the Walgreens and a lot of times their goals are different, so it's difficult to get a contract that's a win-win," he says. "Number two, hospitals have all been hit with a significant decrease in revenue and bad debt and charity care in the past year. So is this where you're going to allocate your resources?"

Hart answers his own question by noting that retail healthcare is a completely new world for organizations traditionally focused on acute care, so competition is a key consideration.

"Things like this are not always a revenue generator but a loss leader. And if you're partnering with one of the big players, are you just enhancing the business that you happen to be partnering with?"

He says organizations like his are seen as the high-price option, "and we want to change that. What we're looking for is how we get new patients in our system and retain them."

Further areas of change between 2013 and 2014 can be seen in CEOs' responses regarding readmissions and patient experience. Last year, only 4% of CEOs saw those areas as their single greatest challenge regarding clinical quality improvement. In 2014, that number had risen to 13% and 12% respectively. While still a relatively small percentage, the increasing CEO attention, Hart says, is because hospitals and health systems have serious concerns about whether they're being measured accurately for two metrics that can have a significant revenue impact.

> "What we're looking for is how we get new patients in our system and retain them."
>
> —Charles Hart, MD, MS, president and CEO of Regional Health in Rapid City, S.D.

"That's a tough nut because readmissions is not as much of a care issue as the government would like to think it is," he says. "It's social. Social issues are the major reason for readmissions."

Hart says many patients are ultimately readmitted to an acute care setting because they can't afford their medication, have no one to take care of them at home, or struggle with any number of other issues—like mental health—that many acute care organizations are not equipped to handle. Infrastructure to put that in place can make a difference, but it's expensive, he says.

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Analysis (continued)

"One of the hardest positions for us to fill is that of a care manager," he says. "Specifically outpatient care managers. It takes us three to six months to train someone to do that work. There are still not enough people with those skills."

He says like himself, many CEOs probably saw readmission scrutiny as easier to handle than it ultimately proved to be.

"We had a very low readmission rate when this started, but we have a hard time maintaining it," he says. "Patient experience is another thing where organizations have enhanced services across the board. We are improving, but a lot of people are improving faster."

Hart adds that a "semi-academic center" such as Regional Health sees a tremendous number of chronically ill patients.

"That's a very difficult patient to satisfy. They have longer lengths of stay, and we face a lot of challenges because of our patient mix," he says. "HCAHPS compares an academic medical center to a 20-bed hospital and that's just not a fair comparison. Lots of organizations don't feel fairly rated because of that, but the law is not designed to improve the patient experience. Although the law was designed initially to be revenue-neutral, I believe its eventual goal is to decrease Medicare costs."

> "Readmissions is not as much of a care issue as the government would like to think it is. It's social. Social issues are the major reason for readmissions."
>
> —Charles Hart, MD, MS, president and CEO of Regional Health in Rapid City, S.D.

CEOs who participated in the 2014 survey say that they'll find additional savings through labor efficiency (75% in 2014 vs. 64% in 2013) and even labor reductions (18% in 2014 vs. 11% in 2013). There was no such movement among other cost-control choices.

Finally, CEOs seem less impressed with physician and nursing staff performance in 2014 vs. 2013. While 66% of CEOs rated the performance of their physician staff as strong or very strong last year, that number dropped to 52% this year. Similarly, the weak or very weak rating jumped from just 5% to 16%. Nursing performance also dropped in the CEOs' judgment, from 69% of CEOs rating it strong or very strong last year to only 59% in 2014. Such statistical declines are troubling for healthcare organizations, Hart says, while adding that he doesn't count himself in that number.

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Analysis (continued)

"I found this to be the most interesting question," he says. "What's causing that? I think it's actually just the reality of moving a very huge ship."

He says what top leaders are asking of their physicians and nurses is tough to accomplish—the financial incentives they have are totally contrary to what CEOs want to achieve. Besides that, clinicians are overwhelmed with electronic medical records, RAC reviews, new coding rules, and value-based purchasing, he says.

"We have started to ask for so much that's different. It's not that they don't have the ability to do it, it's that we don't have the internal ability to help them help us," Hart says. "This change is so huge and so fast, we as leaders have to help them. They're in an environment that's so tumultuous."

Philip Betbeze is senior leadership editor for HealthLeaders Media. He may be contacted at *pbetbeze@healthleadersmedia.com*.

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FIGURE 1 | Current State of the Healthcare Industry

Q | Overall, how do you assess the current state of the healthcare industry?

CEO responses

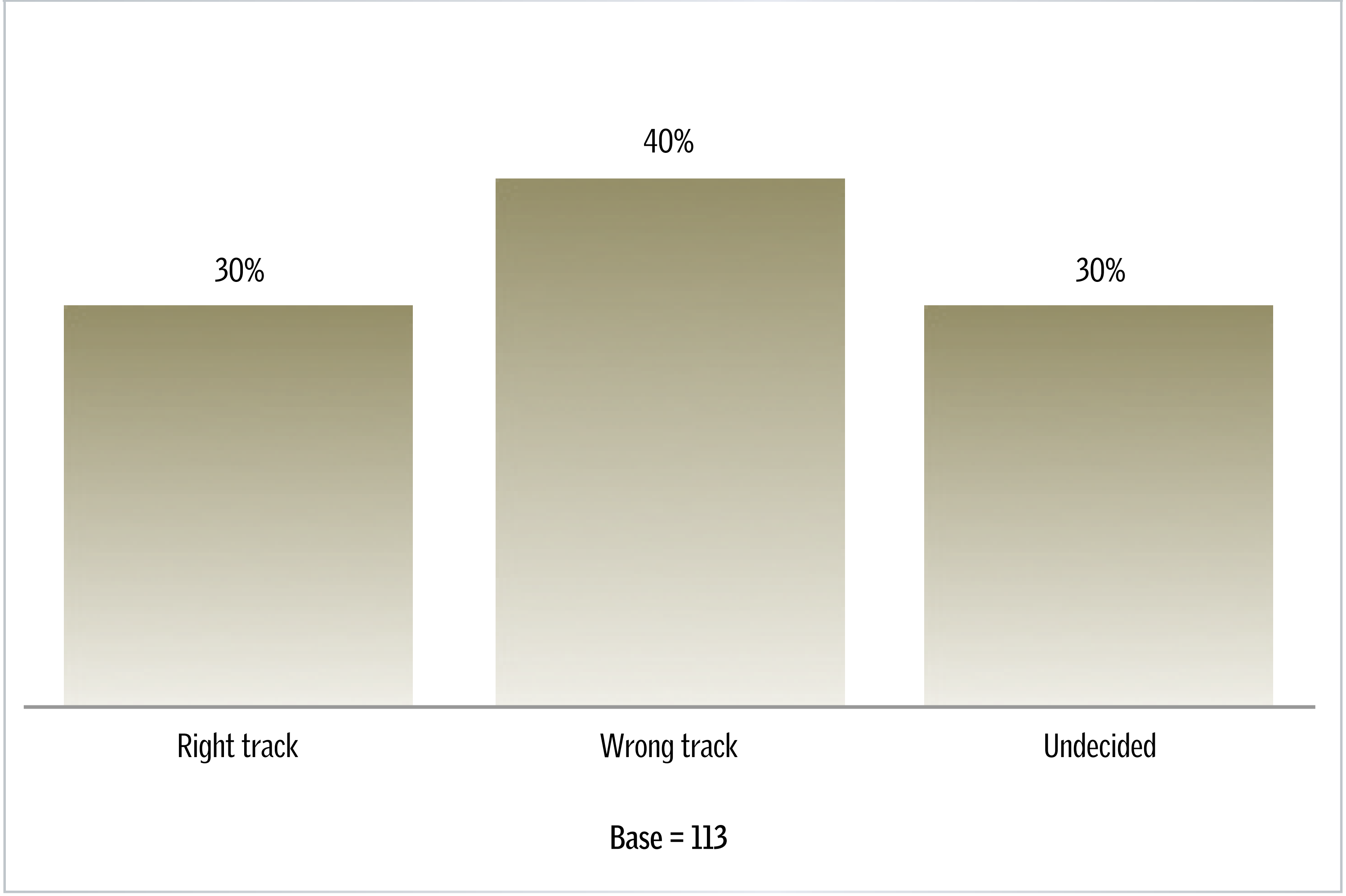

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FIGURE 2 | Current State of Organization

Q | Overall, how do you assess the current state of your own organization?

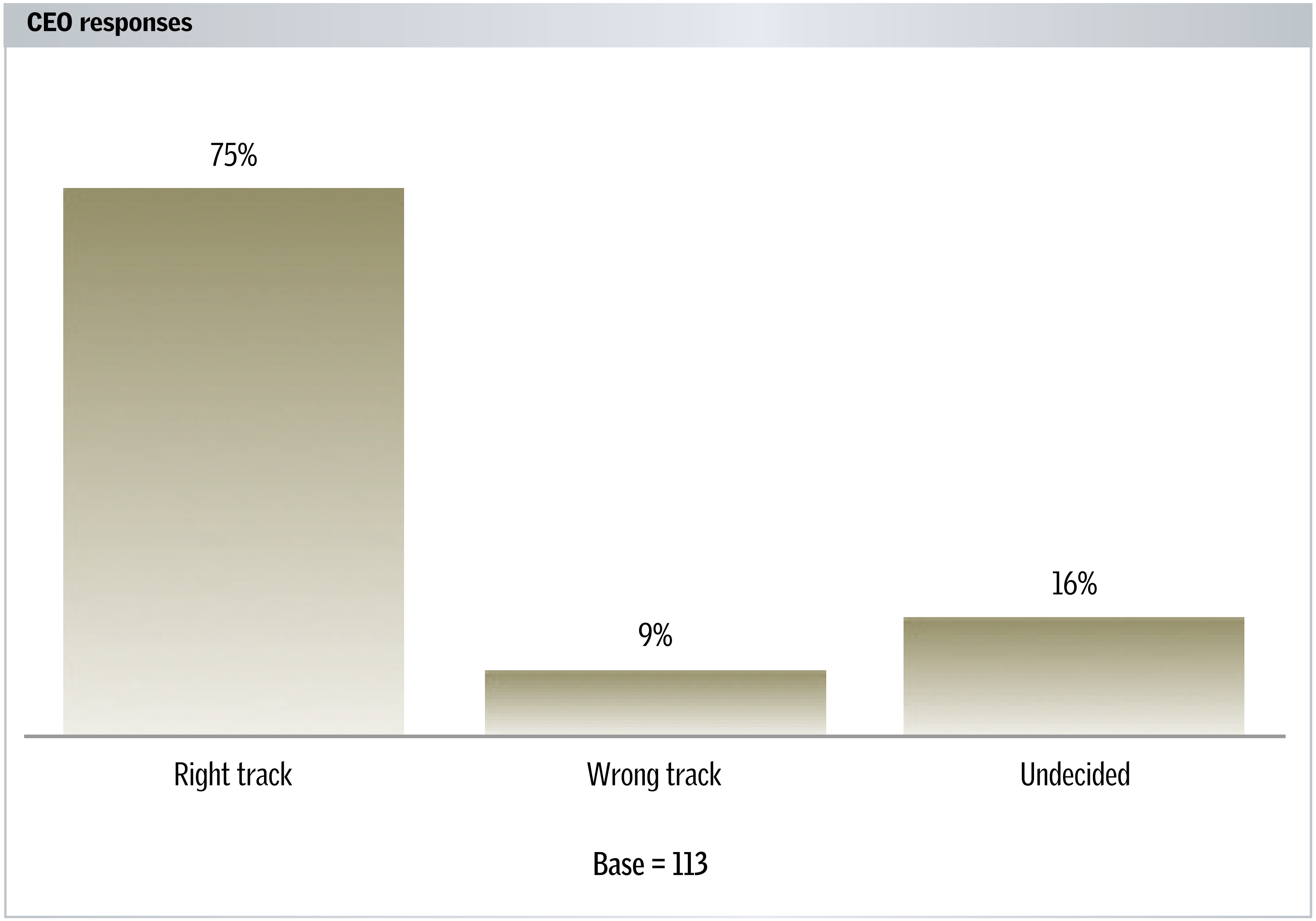

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FIGURE 3 | Top Three Improvement Areas to Reach Financial Targets in Three Years

Q | Which are the top three areas your organization must improve or address in order to reach your financial targets in the three-year time frame?

CEO responses

	Percent
Cost reduction	44%
Physician-hospital alignment	42%
Reimbursement	40%
Care model (e.g., population health, medical home)	37%
Strategic partnerships with providers	32%
Revenue cycle	29%
Strategic partnerships with payers	25%
Information technology, clinical	22%
Decline in acute care admissions	15%
Information technology, financial	11%

Base = 113, Multi-response

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FIGURE 4 | Threats

Q | Does your organization consider each of the following to be a threat?

CEO responses

	Percent
Reduced reimbursements	96%
Healthcare reform, overall	38%
Retail healthcare (e.g., clinics, pharmacies)	31%
Industry consolidation	27%
Shared risk, shared reward payments	22%
Health insurance exchanges	19%
Care continuum relationships, financial	15%
Population health management	9%
Health information exchange	8%
Care continuum relationships, clinical	5%
Primary care redesign	4%

Base = 113, Multi-response

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FIGURE 5 | Opportunities

Q | Does your organization consider each of the following to be an opportunity?

CEO responses

	Percent
Care continuum relationships, clinical	87%
Primary care redesign	76%
Population health management	71%
Health information exchange	66%
Shared risk, shared reward payments	65%
Care continuum relationships, financial	62%
Health insurance exchanges	56%
Industry consolidation	52%
Healthcare reform, overall	49%
Retail healthcare (e.g., clinics, pharmacies)	34%
Reduced reimbursements	2%

Base = 113, Multi-response

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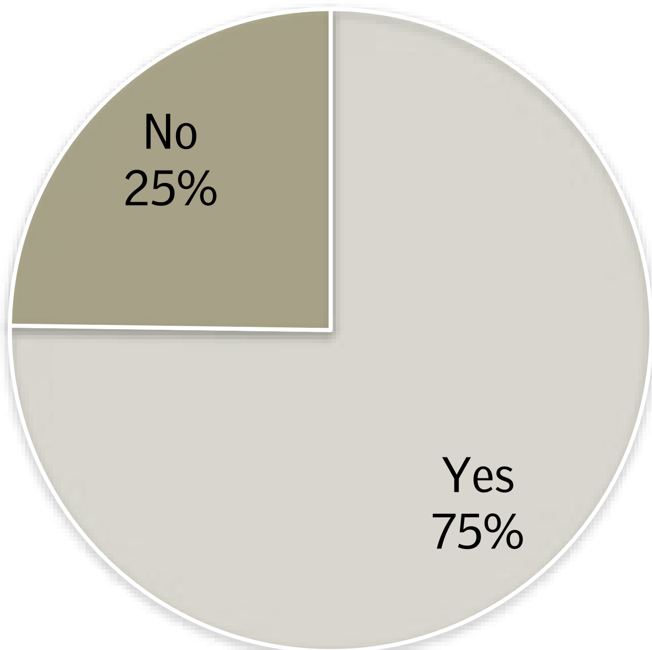
FIGURE 6 | Switch From Volume to Value

Q | Do you believe the healthcare industry will make the switch from volume to value?

CEO responses



Base = 113

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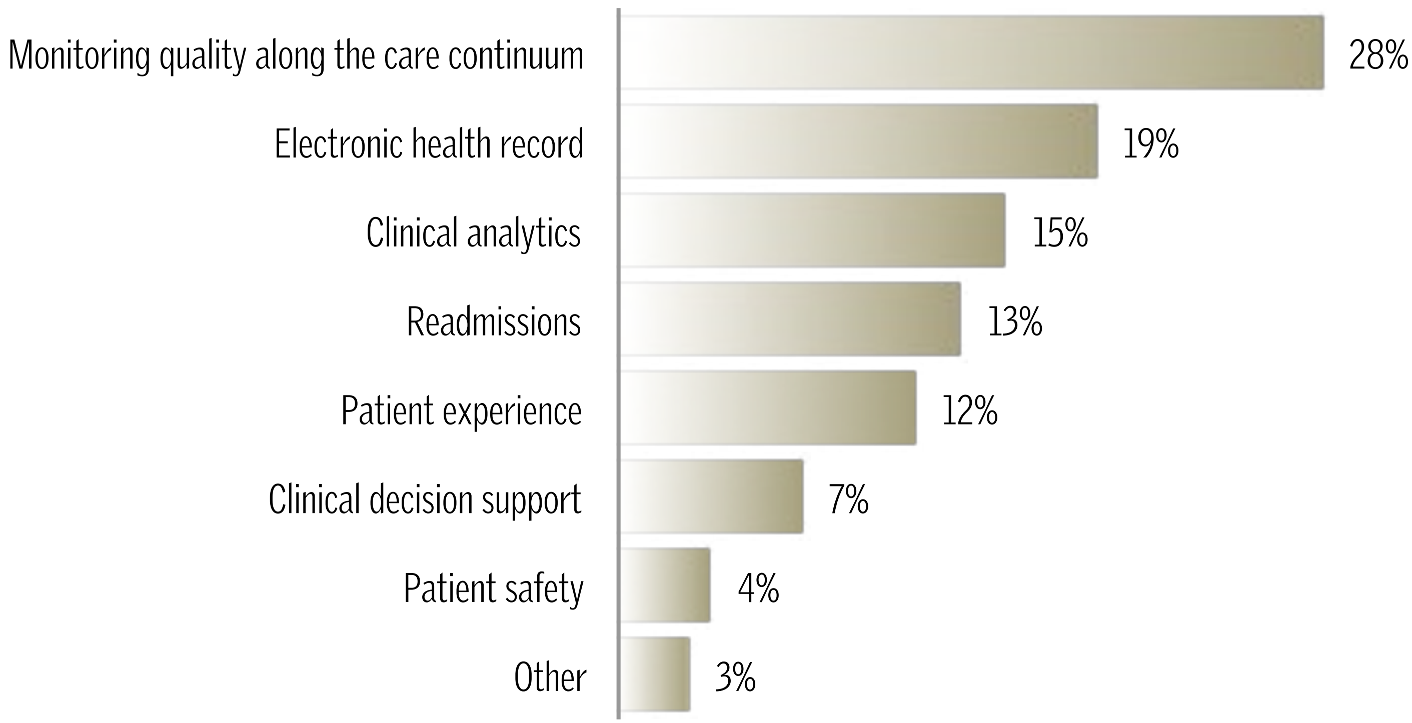
FIGURE 7 | Greatest Clinical Quality Improvement Challenge

Q | Regarding clinical quality improvement, which of the following areas represents the single greatest challenge for your organization?

CEO responses



Base = 112

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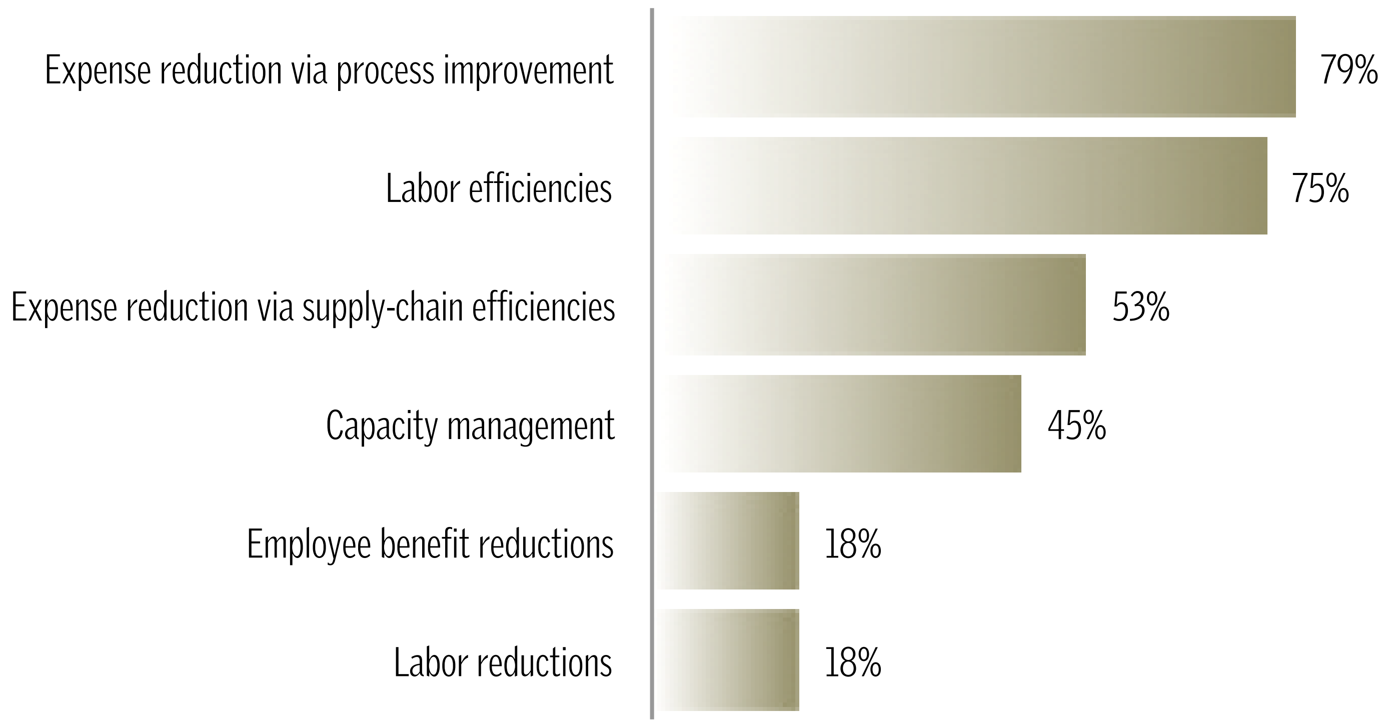
FIGURE 8 | **Top Three Focus Areas Next Year to Control Cost**

Q | What are the top three areas you will focus on next year to control costs?

CEO responses



Base = 113, Multi-response

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FIGURE 9 | Job Satisfaction

Q | Describe your overall job satisfaction.

CEO responses

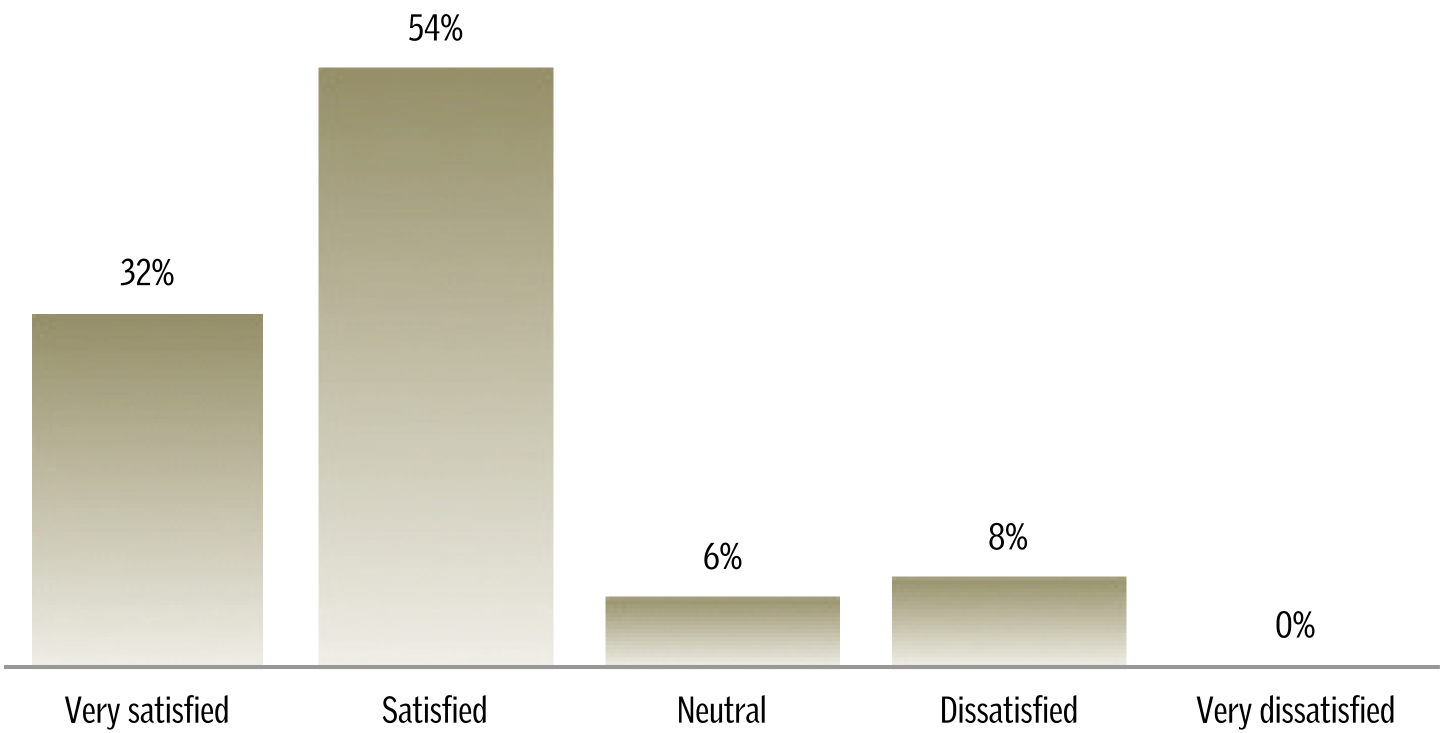

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FIGURE 10 | Overall Performance for Various Groups

Q | How would you rate the current overall performance of the following groups in your organization?

CEO responses

	Very strong	Strong	Neutral	Weak	Very weak
Leadership team	24%	58%	13%	5%	0%
IT staff	18%	42%	32%	7%	2%
Finance staff	16%	55%	20%	6%	3%
Nursing staff	13%	46%	32%	9%	0%
Board of trustees	13%	46%	22%	18%	1%
Physician staff	13%	39%	32%	15%	1%
Frontline staff	8%	58%	26%	9%	0%
Midlevel managers	4%	41%	37%	17%	1%
Data analytics staff	4%	31%	39%	23%	3%

Base = 113

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FIGURE 11 | Overall Performance for Various Functions

Q | How would you rate your organization's current performance of the following functions?

CEO responses

	Very strong	Strong	Neutral	Weak	Very weak
Dedication to mission	43%	42%	12%	3%	1%
Clinical quality and patient safety	31%	52%	14%	3%	0%
Patient experience	16%	46%	28%	9%	1%
Healthcare IT	15%	39%	29%	12%	4%
Cost control	9%	52%	25%	14%	0%
Care coordination	8%	51%	23%	18%	0%
Financial/business analytics	8%	42%	35%	12%	3%
Clinical analytics	2%	29%	41%	27%	1%
Population health management	0%	16%	41%	28%	15%

Base = 113

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FIGURE 12 | Performance for Various Areas

Q | How would you rate your organization's current performance in the following areas?

CEO responses

	Very strong	Strong	Neutral	Weak	Very weak
Strategic planning	15%	56%	20%	9%	0%
Prospects for growth	15%	47%	21%	16%	1%
Fiscal management	12%	61%	18%	8%	1%
Physician recruitment and retention	12%	38%	40%	8%	2%
Physician-hospital alignment	12%	42%	34%	11%	2%
Collaboration/relationships with providers	10%	55%	30%	5%	0%
Capacity management	6%	45%	39%	10%	0%
Strategic marketing	5%	37%	31%	23%	4%
Collaboration/relationships with payers	4%	39%	37%	19%	1%
Price transparency	4%	35%	43%	16%	2%

Base = 113

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FIGURE 13 | 2014 Financial Forecast

Q | What is your organization's financial forecast for the 2014 fiscal year?

CEO responses

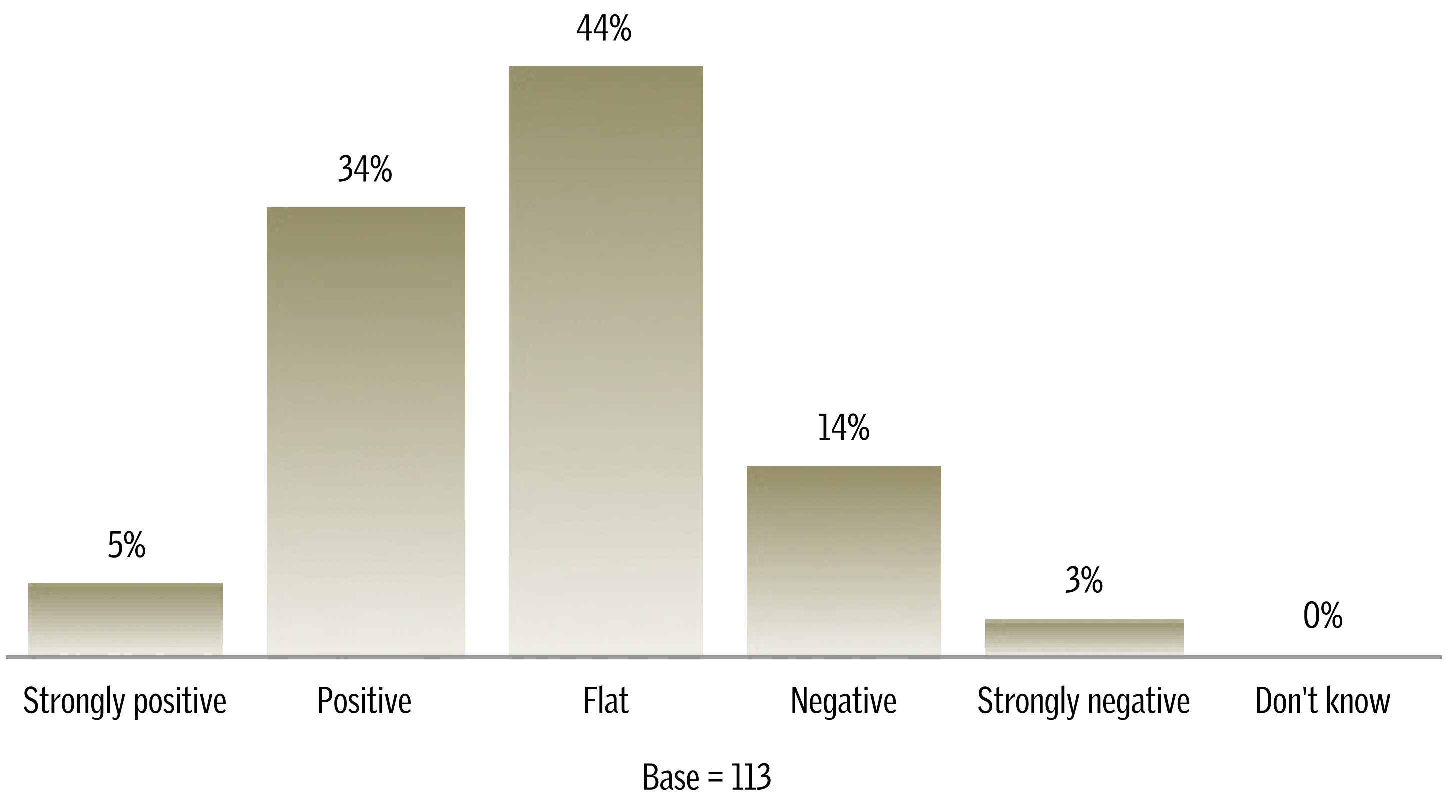

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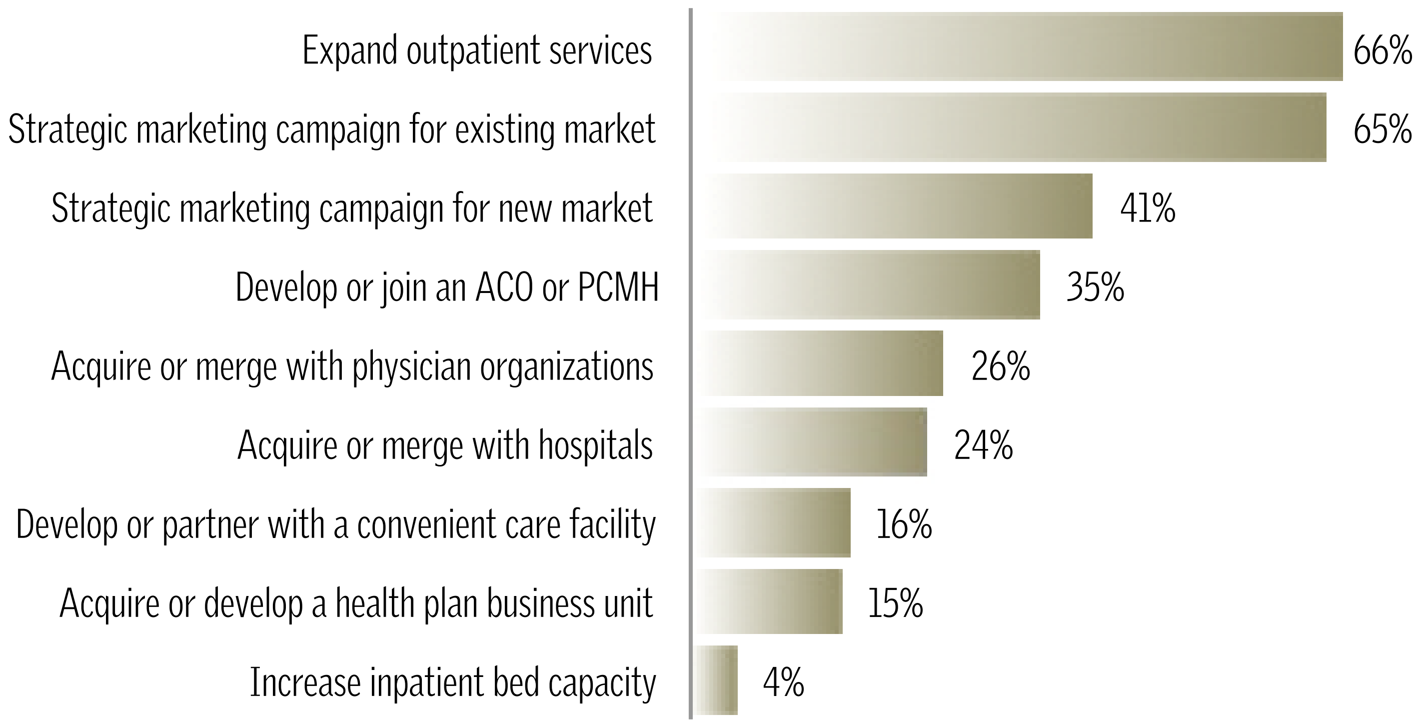
FIGURE 14 | Fueling Financial Growth Over the Next Five Years

Q | How will your organization fuel financial growth over the next five years?

CEO responses



Base = 113, Multi-response

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FIGURE 15 | Investments Over Next Three Years

Q | In which of the following does your organization expect to begin or increase investment over the next three years?

CEO responses

	Percent
Patient experience improvements	72%
EHR	61%
Data analytics	61%
Continuous improvement techniques such as Lean	51%
Facility expansion or renovation	50%
Integration of clinical and financial data	50%
Nurse navigators, care coordinators	44%
Service line redesign or realignment	42%
Primary care redesign	40%
Expansion of ambulatory care network	38%
Other	1%

Base = 113, Multi-response

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FIGURE 16 | Investments That Wasted Money Over Past Few Years

Q | When you reflect on your organization's investment in the following over the past few years, which would you describe as largely a waste of money?

Among those reporting waste

CEO responses

	Percent
EHR	35%
Service line redesign or realignment	29%
Facility expansion or renovation	23%
Continuous improvement techniques such as Lean	17%
Data analytics	12%
Expansion of ambulatory care network	12%
Nurse navigators, care coordinators	12%
Integration of clinical and financial data	12%
Patient experience improvements	8%
Primary care redesign	6%
Other	15%

Base = 52, Multi-response

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FIGURE 17 | Performance on Cost Reduction Initiatives

Q | How is your organization performing on each of the following?

CEO responses

	Strong	Neutral	Weak	Don't know	Not involved
Cost containment/removing waste from the system	57%	30%	12%	0%	1%
Reducing excess/unnecessary care	37%	45%	14%	4%	0%
Responding to reduced reimbursements	34%	49%	12%	2%	4%
Disease state management	27%	40%	21%	4%	8%
Nurse navigators/care coordinators	23%	33%	19%	6%	19%
Preparing for bundled payments	17%	34%	36%	4%	10%

Base = 113