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INDUSTRY SURVEY

HEALTHLEADERS MEDIA 2014

Forging Healthcare's New Financial Foundation

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INDUSTRY SURVEY
HEALTHLEADERS MEDIA 2014

Intelligence Report Premium **from HealthLeaders Media**

Industry Survey 2014: Forging Healthcare's New Financial Foundation

This report shows how organizations are managing the shift from volume to value, including new and proven tactics to support collaborative care.

- Learn how top organizations are preparing for bundled payments, risk sharing, and the development of new analytics skills needed to drive population health management.
- Discover which specific clinical and financial strategies today's leaders are pursuing to pave the way to collaborative care.
- Benchmark your organization's progress in the volume-to-value transition compared to other leading providers.
- Deep-dive into over 400 charts with segmented peer data.
- Get proven strategies and actionable recommendations from the HealthLeaders Media research team, and a discussion guide for your organization.

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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 Industry Survey* was conducted by the HealthLeaders Media Intelligence Unit, powered by the HealthLeaders Media Council. It is part of a series of monthly Thought Leadership Studies. In October 2014, 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 analysis. The bases for the individual questions range from 776 to 792 depending on whether the respondent had the knowledge to provide an answer to a given question. The margin of error for a sample size of 792 is +/-3.5% at the 95% confidence interval.

Each figure presented in the Premium and Buying Power editions of the report contains the following segmentation data: setting, number of beds (hospitals), number of sites (health systems), net patient revenue, region, purchase involvement, dollar amount influenced, and types of products/services purchased. Please note cell sizes with a base size of fewer than 25 responses should be used with caution due to data instability.

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Upcoming Intelligence Report Topics

February – Healthcare IT and Analytics

March – Cardiovascular Service Line

April – Primary Care Redesign

ABOUT THE HEALTHLEADERS MEDIA INTELLIGENCE UNIT

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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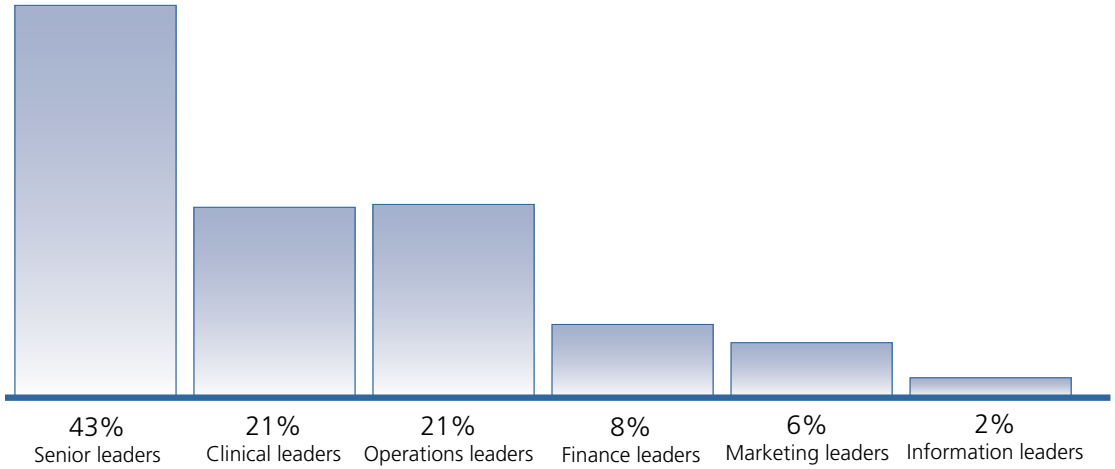
Respondent Profile

Respondents represent titles from across the various functional areas, including senior leaders, clinical leaders, operations leaders, finance leaders, marketing leaders, and information leaders. They are from a variety of healthcare provider organizations.

Title

Base = 792



Senior leaders | CEO, Administrator, Chief Operations Officer, Chief Medical Officer, Chief Financial Officer, Executive Dir., Partner, Board Member, Principal Owner, President, Chief of Staff, Chief Information Officer

Clinical leaders | Chief of Orthopedics, Chief of Radiology, Chief Nursing Officer, Dir. of Ambulatory Services, Dir. of Clinical Services, Dir. of Emergency Services, Dir. of Nursing, Dir. of Rehabilitation Services, Service Line Director, Dir. of Surgical/Perioperative Services, Medical Director, VP Clinical Informatics, VP Clinical Quality, VP Clinical Services, VP Medical Affairs (Physician Mgmt/MD)

Operations leaders | Chief Compliance Officer, Asst. Administrator, Dir. of Patient Safety, Dir. of Quality, Dir. of Safety, VP/Dir. Compliance, VP/Dir. Human Resources, VP/Dir. Operations/ Administration, Other VP

Finance leaders | VP/Dir. Finance, HIM Director, Director of Case Management, Director of Revenue Cycle

Marketing leaders | VP/Dir. Marketing/Sales, VP/Dir. Media Relations

Information leaders | Chief Medical Information Officer, Chief Technology Officer, VP/Dir. Technology/MIS/IT

Type of organization

Base = 792

Hospital	39%
Health system	26%
Physician org.	13%
Long-term care/SNF	10%
Ancillary, allied provider	6%
Health plan/insurer	4%
Government, education/academic	3%

Number of beds

Base = 305 (Hospitals)

1–199	48%
200–499	33%
500+	18%

Number of sites

Base = 203 (Health systems)

1–5	20%
6–20	29%
21+	51%

Number of physicians

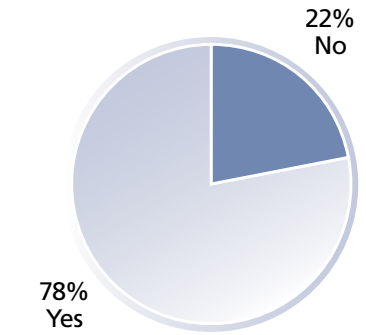
Base = 101 (Physician orgs)

1–5	18%
6–20	31%
21+	51%

Respondent Profile (continued)

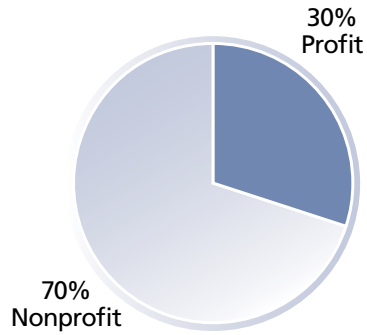
Community & Profit/Nonprofit

Community hospital



Base = 305 Among hospitals

Profit/nonprofit



Base = 792

Age & Gender

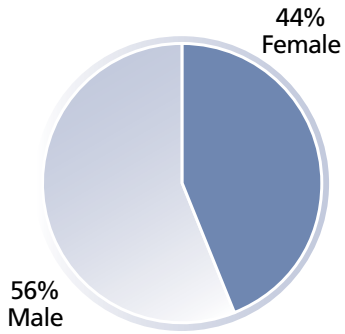
Age

Average age = 53 years

35 or younger	3%
36–45	15%
46–55	42%
56–65	36%
66 or older	4%

Base = 792

Gender



Base = 792

INDUSTRY SURVEY ANALYSIS

Discovering Gaps in the Commitment to Change

BY MICHAEL ZEIS

It's not just a majority of respondents to the *2014 HealthLeaders Media Industry Survey* who believe the healthcare industry will make the switch from volume to value, it's a big majority—72%. But throughout the survey results we see indications that, although large, 72% may not be big enough.

For one thing, having as many as 28% who are not convinced that they are in the final days of fee-for-service reimbursement may prompt some uncertainty even among those who accept that the transition will occur. And even though the Centers for Medicare & Medicaid Services operates on a schedule, the timing and many other aspects of the changeover remain uncertain. Healthcare providers are encouraged to expand their cadre of care partners and shift care to outpatient and ambulatory settings, but right now, today, the financial infrastructure—costs and revenue—appears uncertain, as well.

Nonetheless, we see indications that the industry is identifying and addressing the clinical, financial, and alignment issues involved with working with a larger set of care collaborators. In response to continuing pressure on revenue, costs are being squeezed out. Considering that patient volume remains the source of most revenue today, most revenue-growth methods reflect old-school tactics. But we see substantial portions of the respondent base involved in accountable care organizations, patient-centered medical homes, and other partnerships that involve shared clinical care at least

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

"We are beginning to acquire the analytics to realistically provide for shared payments and expenses for facility and clinical accountability."

—CEO for a health plan

Analysis (continued)

and, for some, shared cost or revenue as well. Despite this uncertainty, the healthcare industry is moving toward a new financial foundation.

Quality monitoring along the care continuum. A principal mechanism for changing the economics of delivering healthcare is to shift care from the hospital environment to outpatient and ambulatory settings. For many, expanding the continuum of care brings concern about monitoring quality. More than one-quarter (27%) say that monitoring quality along the care continuum is their single greatest clinical quality improvement challenge. With more care providers involved, there are more handoffs, which may be one reason that monitoring is becoming more important. Says advisor Roger Deshaies, chief financial officer for Fletcher Allen Health Care, a 562-licensed-bed academic and university medical center with 30 care sites and 100 outreach clinics and programs in Vermont and upstate New York, "As you refer patients down the line, there are a lot of reasons for those handoffs not to work well. It's only recently that we've had access to clinical information outside of our own four walls. Before that, it was almost as if patients entered a black box, unless they were referred for treatment within your health system."

David C. Pate, MD, JD, president and CEO of St. Luke's Health System, a not-for-profit health system operating seven hospitals and more than 100 clinics in Idaho, notes that the industry appears to show a degree of comfort with monitoring quality internally, but not necessarily externally. Some of the tools that support quality monitoring and quality improvement appear farther down on the list of quality improvement challenges—15% call clinical analytics their single greatest challenge, while 13% are challenged by EHRs and 8% by clinical decision support. Says Pate, "You would think that if you had electronic health records that were integrated along the care continuum ... you would be pretty well prepared to monitor quality. The higher percentage for care-continuum monitoring suggests to me that providers still see the care continuum as very fragmented. I think they're right."

> "As you refer patients down the line, there are a lot of reasons for those handoffs not to work well. It's only recently that we've had access to clinical information outside of our own four walls."
>
> —Roger Deshaies, chief financial officer for Fletcher Allen Health Care in Burlington, Vt.

Physicians needed to drive transformation. Survey results show that leaders understand the relationship between providing coordinated care and earning positive financial performance. Care models, including population health, are included by 40% among the areas that need improvement in order to reach financial targets, and are positioned near the top of the chart with more traditional areas such as physician-hospital alignment (44%), cost reduction (41%), and reimbursement (39%).

Survey results point to possible sources of friction as new work methods

Analysis (continued)

propagate. Nearly two-thirds of respondents (63%) characterize their nursing staff as very strong or strong, while only 54% say their physician staff is very strong or strong. Brent E. Wallace, MD, chief medical officer for Intermountain Healthcare, a Salt Lake City–based network that includes 22 hospitals, a medical group with more than 185 physician clinics, an affiliated health insurance company, and more than 33,000 employees, suggests that physician autonomy might be contributing to the difference in readings.

"As physicians, we have been taught in our training that we should be independent and make all the right decisions," Wallace says. "Nurses may have more of the perspective that they need to provide care the way the system says they should. Considering that cultural difference, we have to ask whether physicians are really aligned with what the hospital needs to accomplish." In addition to being asked to support the organization's approach to healthcare, physicians must abide by dictates from various regulatory bodies, decrees that often are communicated through the same channels as hospital strategies are. "There are so many regulations that come at us," Wallace notes. "Even though we may intellectually understand that the directives are from the CMS or The Joint Commission, the perception may be that the hospital is making us do it."

Attack waste. While organizations are positioning themselves to take on risk and manage populations in the future, the need to respond to current and compelling revenue pressures requires that leaders approach cost containment today with renewed vigor, and in new ways. "Attacking waste is the best advice for cost control, and process variation is probably the largest source of waste within any given hospital," says Wallace.

> "Providers still see the care continuum as very fragmented. I think they're right."
>
> —David C. Pate, MD, JD, president and CEO of St. Luke's Health System in Boise, Idaho

Four-fifths (81%) include expense reduction via process improvement among the top three methods for cost control over the next year. Michael T. Burke, senior vice president, vice dean, and corporate CFO of the New York University Langone Medical Center, a 1,069-bed health system with four hospitals in New York City and ambulatory services in New York City, Long Island, New Jersey, and Westchester, Putnam, and Dutchess counties, cautions that efficiencies gained through continuous improvement techniques such as Lean can be lost if leaders don't follow through.

"Six months from now you have to spend less than you are spending today, and Lean doesn't help you do that," Burke says. "Lean eliminates the unnecessary and eliminates variation. Then you as management have to adjust to the new lower level of activity and reduce the level of resources. If you don't have a variable staffing model that does that, it will never happen."

Analysis (continued)

For some of our respondents, sufficient savings never materialized: one-fifth (21%) said that continuous improvement techniques such as Lean have largely been a waste of money.

EHR: Friend or foe? Topping the list of investments that healthcare leaders describe as largely a waste of money is the electronic health record, with 27% overall saying their investment was largely a waste. How can this be, in light of the efficiencies the EHR was supposed to foster? Burke, an advisor for this intelligence report, suggests that the need to integrate data may be the culprit, causing many to have to start over.

"A lot of people have put in an electronic medical record only to find they have to replace it with something that really works," Burke says. NYU replaced an early EHR with a robust system that includes an integrated clinical and billing system that covers inpatient and outpatient services and provides an ambulatory record as well. "It's everything all together, all in one," Burke says.

At NYU, Burke says, the comprehensive EHR gave them command over the services the organization delivers and is saving money. "We have lower malpractice premiums, we have fewer missing and lost charges, and we have more robust clinical activity tracking. We have improved our coding so we are more completely documenting our cases, which results in more complete billing for our services. So we've been able to improve our reimbursements. It's a huge improvement, way more than what I originally thought it would be."

> "Attacking waste is the best advice for cost control, and process variation is probably the largest source of waste within any given hospital."
>
> —Brent E. Wallace, MD, chief medical officer for Intermountain Healthcare in Salt Lake City

Care collaboration: patient care today, finances tomorrow. Although care collaboration is hardly a new concept, survey results show that not all are ready to take on the emerging requirement to share data and share risk. With 89% saying they see opportunity in the clinical aspects of care continuum relationships, leaders show that they are reasonably comfortable providing care through care partners. However, only 66% say they see opportunity in the financial aspects of the care continuum, and 13% say they view the financial aspects of the care continuum as an outright threat.

Wallace, who served as lead advisor for the *2014 HealthLeaders Media Industry Survey,* helps us understand that organizations that find opportunity in the clinical aspects of coordinated care are probably obtaining benefits from such relationships here and now. "People may be saying, 'If I have a

Analysis (continued)

clinical relationship, that's helping me today with readmission penalties and so forth.' "

The financial aspects of care collaboration involve sharing revenue, sharing expenses, or both. Bundled payments of one kind or another are likely to be part of collaborative relationships in the future. Our survey results reveal that those who consider themselves strong at payment bundling are in the minority—only 21%. Slightly more say they are weak (23%), while most (38%) report they are neutral. The tally seems to indicate a lack of readiness to, indeed, break from fee-for-service, take on risk, and enter results-based financial arrangements with care partners.

Wallace looks at the tactics leaders expect to use to foster financial growth over the next five years and sees an industry steeped in conventional practices. "We have a significant portion of leaders [72%] who say, yes, the industry will make the switch to value-based payment. Then when they are asked how they are going to grow financially, look at what they're doing. They're expanding outpatient services [60%], marketing to existing markets [59%], and directing marketing campaigns at new markets [41%]. Everything that's listed on top of the chart is in the old paradigm, at the time we're moving toward a new paradigm." By comparison, only 38% say they expect to develop or join an ACO or PCMH, which are seen by many to be early steps toward population health management. Says Wallace, "That's a dichotomy that leadership across healthcare is caught in. It appears that leadership doesn't know how to deal with it."

> "Six months from now you have to spend less than you are spending today, and Lean doesn't help you do that."
>
> —Michael T. Burke, senior vice president, vice dean, and corporate CFO of the New York University Langone Medical Center

Strive for scale, but pay close attention to alignment. The direction of the industry is to emphasize keeping people healthy rather than caring for them when they are ill, and that basic but important change in perspective drives many healthcare business decisions. As an early strategy, healthcare organizations recognize the need to expand their reach beyond the acute care setting. There are many ways to accomplish this, and virtually all of them lead organizations to recognize the need to adopt a risk-based payment model as a component of a broader strategy of leading to population health management.

Fletcher Allen's Deshaies, an advisor for this report, explains how scale is

Analysis (continued)

an asset when approaching population health management. "We're going to be looking at an industry that's going to consolidate much more than we ever expected. That's going to be driven by the scale you have to bring to the table to be successful in managing populations."

While mergers, acquisitions, and partnerships increase the number of covered lives and provide scale, they also can present challenges in physician alignment, clinical integration, and care coordination. As important as it is, care coordination is not seen to be a particular strength by survey respondents, with only 10% saying they are very strong. Burke observes that the nature of new work arrangements can either foster or thwart coordinated care.

"Care coordination is really about standardization of care, using standardized quality indicators, and using standard protocols. Some health systems have not done well because they've come together as loosely affiliated networks as opposed to in a clinically integrated delivery system," Burke says. "The more autonomy you allow and the more that you allow people to deviate from best practices, the more difficult it will be to have consistent results."

Regardless of the contractual arrangement, leaders should establish strategies and tactics that align new team members and integrate new organizations in ways that support providing standardized care and fence in care providers' innate desire for autonomy.

Burke also suggests that autonomy might be complicating the pursuit of population health management—one-third of respondents (32%) say they are weak or very weak at population health management, and 25% say they are weak or very weak at clinical analytics.

> "A lot of people have put in an electronic medical record only to find they have to replace it with something that really works."
>
> —Michael T. Burke, senior vice president, vice dean, and corporate CFO of the New York University Langone Medical Center

"It's going to be hard for you to manage populations if you don't have an academic bent toward the analytics required and if you don't have access to bioinformatics and other data that allows you to look at outcomes in a robust way with a very robust database," Burke says. "It is also difficult if you're a disparate provider with disparate hospitals joining your network, all maintaining some level of autonomy on clinical practice because of the independent nature of the physicians."

So scale may be a requirement for participation in healthcare in the future. But the work is not over when the papers are signed, because an environment must be fostered to ensure that clinical integration, physician alignment, and care coordination help the enterprise rather than hurt it.

Analysis (continued)

There are indications in the survey results that some organizations should begin their examination of alignment with the board and top leaders. Pate, of St. Luke's Health System and an advisor for this intelligence report, gets little reassurance by observing that 72% of respondents say the performance of their leadership team is strong or very strong.

"At a time of transformation, we've got to have really strong leaders," he says. "When we see 72% of leaders described as strong or very strong, that basically says that one in four leadership teams are merely okay or they're not particularly strong. How are you going to make the transition from volume to value if you don't have strong leadership?"

Noting that only 59% say the performance of their boards is strong or very strong, Pate adds, "How many of these are situations where you have both a weak board and a weak leadership team? That is just a recipe for disaster."

In a similar vein, Pate sees a problem with the percentage of respondents who say they are dissatisfied with their jobs (8%) or are neutral about job satisfaction (14%). "This is an incredibly exciting time to be leading healthcare," Pate says, "because we can actually make a lot of changes right now that could affect the future for the better. But 22% of people are either kind of 'meh,' or they're not happy. If you've got some leaders in organizations who aren't happy or aren't very satisfied, what's that doing to the teams that they lead?"

Only 72% expect the shift from volume to value. Nearly three-quarters of respondents (72%) say the industry will make the shift from volume to value, clearly a majority, but nonetheless a percentage that leaves advisors perplexed because 72% may be too small. St. Luke's Pate notes that today, an organization's strategic direction pivots on its perspective on the viability or lack of viability of the current fee-for-service model.

> "We're going to be looking at an industry that's going to consolidate much more than we ever expected. That's going to be driven by the scale you have to bring to the table to be successful in managing populations."
>
> —Roger Deshaies, chief financial officer for Fletcher Allen Health Care in Burlington, Vt.

"An important driver of what organizations are doing is whether they think the current model is sustainable," Pate says. "Transformation is just too hard, so why do it if you don't need to?"

Intermountain's Wallace reminds us that survival is part of the motivation behind the industry's current focus on cost containment and establishing partnerships.

"If you're going to take significant cost out of the system," he says, "somebody's income has got to go. As an industry, we're looking at how all of the

Analysis (continued)

pieces fit together. As we move into the future, what are the roles of insurers? What are the roles of hospitals? What are the roles of physicians? What are the roles of nurse practitioners, physician assistants? We're not going to all fit in the same place on the puzzle as we have in the past."

"I can't read the tea leaves," says Wallace about how most accept that the healthcare industry is shifting away from volume-based reimbursements, but few are comfortable predicting when and at what scale. So the industry continues to have, as they say, one foot on the boat and one foot on the dock.

Our research underscores the industry's dilemma. Strategies, tactics, and skills that address the new emphasis on collaborative care and population health show up near the top of charts having to do with future investment areas, for instance, but appear near the middle or the bottom on charts covering areas of strength.

Take data analytics, for example, a set of tools that can support the complicated decisions that must be made to support delivering collaborative care and addressing population health management. The *2014 HealthLeaders Media Industry Survey* found that more than half (54%) include data analytics among the areas they expect to invest in over the next three years, second only to patient experience on the list of future investments. Yet fully 25% characterize their data analytics staff as weak or very weak, placing data analytics at the bottom of the chart, with the largest "weakness" score by far.

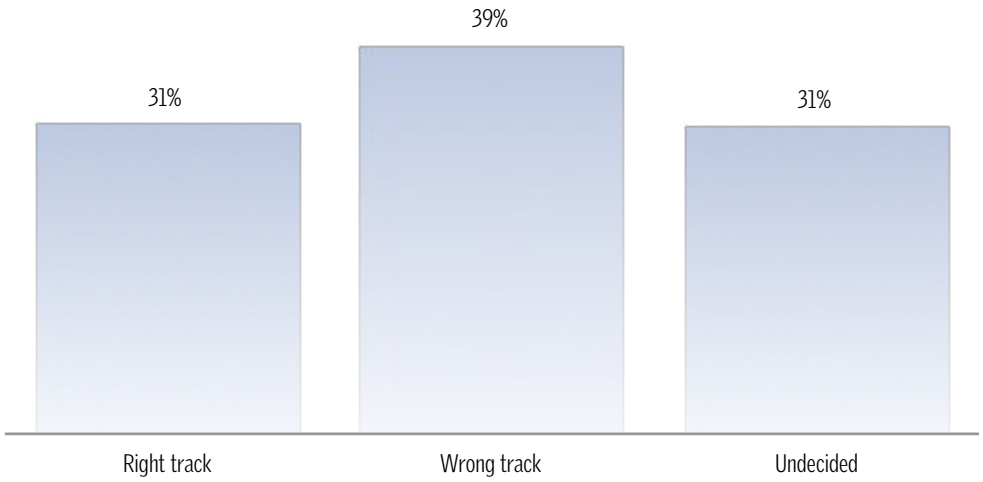
While our reading of the pulse of the industry may suggest a degree of reluctance to leave the old and embrace the new, it also is clear that the lack of a clear schedule should not prevent us from taking steps that will provide exposure to the tools and tactics needed to thrive in the new environment.

Michael Zeis is research analyst for HealthLeaders Media. He may be contacted at *mzeis@healthleadersmedia.com*.

FIGURE 1 | Current State of the Healthcare Industry

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

Total responses



TAKEAWAYS

- There is no consensus on the state of the healthcare industry: Thirty-nine percent say it is on the wrong track, 31% claim it is on the right track, and another 31% are undecided.
- Hospitals are more likely to say wrong track (41%) than right track (27%).
- Health systems are almost evenly divided across right track (37%), wrong track (31%), and undecided (32%).
- Some 39% of respondents from physician organizations say the industry is on the wrong track, 33% say it is on the right track, and 29% are undecided.

WHAT DOES IT MEAN?

Perhaps the biggest surprise is the assessment from physician organizations. The percentage of these respondents who say the healthcare industry is on the wrong track dropped from 52% in the 2013 survey to 39% in 2014. Meanwhile, 33% of physician organizations now say the industry is on the right track versus 25% last year. This could be good news for healthcare reform efforts—after all, physician organizations have a key role to play as the healthcare delivery system lumbers toward the paradigm shift from volume to value. These organizations have spent years in the healthcare reform trenches incorporating EHRs, meaningful use, and ICD-10 into their practices even in the face of declining reimbursements and new risk-sharing models.

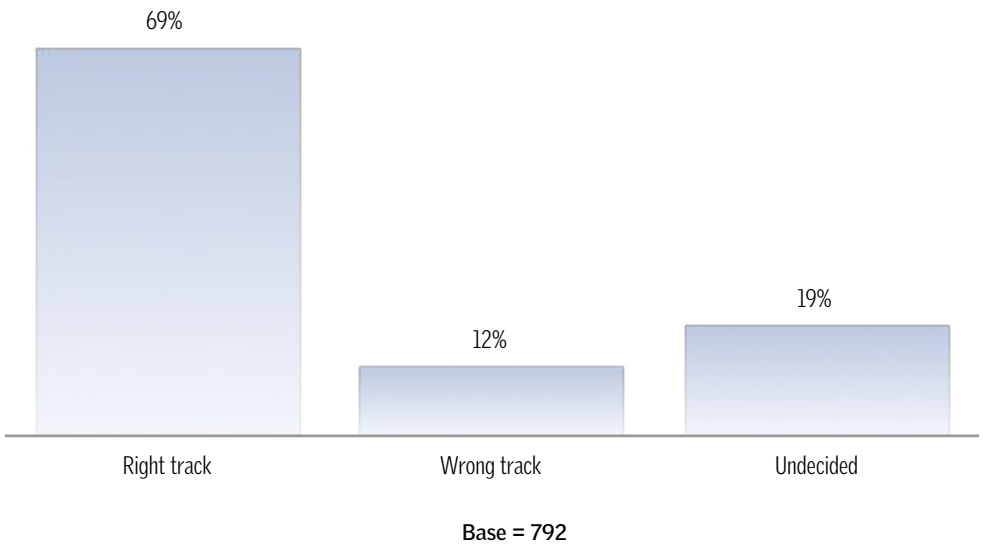
DATA SEGMENTATION TOOL. CLICK ON THESE ICONS TO DIG DEEPER

VIEW BY TRENDING DATA | VIEW BY SETTING | VIEW BY NUMBER OF BEDS | VIEW BY NUMBER OF SITES | VIEW BY NET PATIENT REVENUE | VIEW BY REGION | VIEW BY CEO | MAIN CHART AND TAKEAWAYS

FIGURE 2 | Current State of Organization

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

Total responses



TAKEAWAYS

- More than two-thirds of respondents (69%) say their organization is on the right track, a reading that has changed little over the past three years.
- The remainder of respondents tend to be undecided (19%) rather than convinced that their organizations are on the wrong track (12%).
- Almost one-quarter of hospitals (21%) and health systems (23%) are undecided about the current state of their organizations.
- Physician organizations have the most favorable self-assessment, with 78% claiming they are on the right track, while smaller majorities of health systems (68%) and hospitals (65%) see themselves this way.

WHAT DOES IT MEAN?

The evolution of the healthcare industry requires that organizations set a course that will help them implement financial and clinical analytics, meet quality standards, and achieve patient outcomes. The idea that almost one-quarter of hospitals and health systems are not sure about the direction their organization is taking is troubling.

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?

Total responses

	Percent
Physician-hospital alignment	44%
Cost reduction	41%
Care model (e.g., population health, medical home)	40%
Reimbursement	39%
Strategic partnerships with providers	30%
Information technology, clinical	29%
Strategic partnerships with payers	25%
Revenue cycle	23%
Decline in acute care admissions	14%
Information technology, financial	8%

Base = 792

TAKEAWAYS

- More than half of hospitals (54%) and health systems (53%) named physician-hospital alignment among the top three areas to improve or address to reach their financial goals.
- Only 25% of health systems, 28% of hospitals, and one-third of physician organizations named clinical information technology among the top three areas.
- One-half of health systems (50%) named cost reduction as a top concern, versus 39% of hospitals.

WHAT DOES IT MEAN?

Physician-hospital alignment can help drive cost efficiencies in healthcare delivery, but there is still work to be done in overcoming some long-held turf issues between physicians and hospitals. It is a good sign, then, that more than half of hospitals and health systems recognize the need to work on this relationship. Still, only one-third of physician organizations named physician-hospital alignment among their top three areas to improve or address their financial goals, which could signal a difficult road ahead. Instead, their focus is solidly on care models (46%) and reimbursement (42%).

FIGURE 4 | Threats

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

Total responses

	Percent
Reduced reimbursements	91%
Industry consolidation	37%
Healthcare reform, overall	36%
Retail healthcare (e.g., clinics, pharmacies)	30%
Shared risk, shared reward payments	20%
Health insurance exchanges	20%
Care continuum relationships, financial	13%
Primary care redesign	9%
Population health management	8%
Health information exchange	7%
Care continuum relationships, clinical	4%

Base = 792

TAKEAWAYS

- Some 91% consider reduced reimbursements to be a threat; this response dominates all settings, with no other choice even coming close.
- Hospitals (42%) are more likely than health systems (32%) or physician groups (29%) to view healthcare reform overall as a threat.
- With the news that several influential payers are offering products within the health insurance exchanges that reduce provider network participation, one-fifth of hospitals and physician organizations (21% each) and 18% of health systems view the exchanges as a threat.

WHAT DOES IT MEAN?

Healthcare executives face a continuing threat of reduced reimbursement from government payers. Not only are fee-for-service reimbursements for procedures being reduced, but there is also pressure to develop new contracts that will require providers to share in risk and meet certain quality and outcomes standards. Meanwhile, commercial payers are stoking another level of reimbursement uncertainty as they move into the outcomes arena with accountable care organizations and patient-centered medical homes. In addition, new emphasis on payment models such as bundled payments means providers must be able to integrate clinical and financial information to measure provider performance and to determine the cost of care. The pressures on reimbursements are never-ending.

FIGURE 5 | Opportunities

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

Total responses

	Percent
Care continuum relationships, clinical	89%
Health information exchange	76%
Population health management	75%
Primary care redesign	74%
Care continuum relationships, financial	66%
Shared risk, shared reward payments	62%
Health insurance exchanges	53%
Healthcare reform, overall	52%
Industry consolidation	44%
Retail healthcare (e.g., clinics, pharmacies)	43%
Reduced reimbursements	5%

Base = 792

TAKEAWAYS

- Clinical care continuum relationships top the list of opportunities across all settings—89% of the survey respondents.
- More health systems (87%) see primary care redesign as an opportunity than hospitals (73%) or physician organizations (64%).
- Population health was cited as an opportunity more often by health systems (84%) than hospitals (71%) or physician organizations (75%).

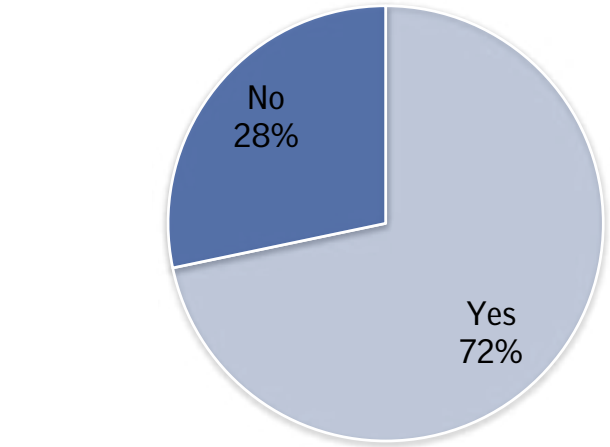
WHAT DOES IT MEAN?

As the healthcare industry strives to improve care and lower costs, it is encouraging to see that large majorities of leaders are optimistic about the potential in clinical care continuum relationships, health information exchanges, population health management, and primary care redesign—the components that will help them achieve those goals. Health systems have an advantage as they often include many of the resources and players necessary to provide patient care across the continuum.

FIGURE 6 | Switch From Volume to Value

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

Total responses



Base = 792

TAKEAWAYS

- Almost three-quarters of all respondents (72%) say the healthcare industry will make the switch from volume to value.
- However, around one-quarter of hospitals (27%) and health systems (23%), plus almost one-third of physician groups (31%), say the industry will not make the switch.
- Small hospitals (31%) are more likely than medium (25%) or large hospitals (20%) to say the industry will not make the switch.

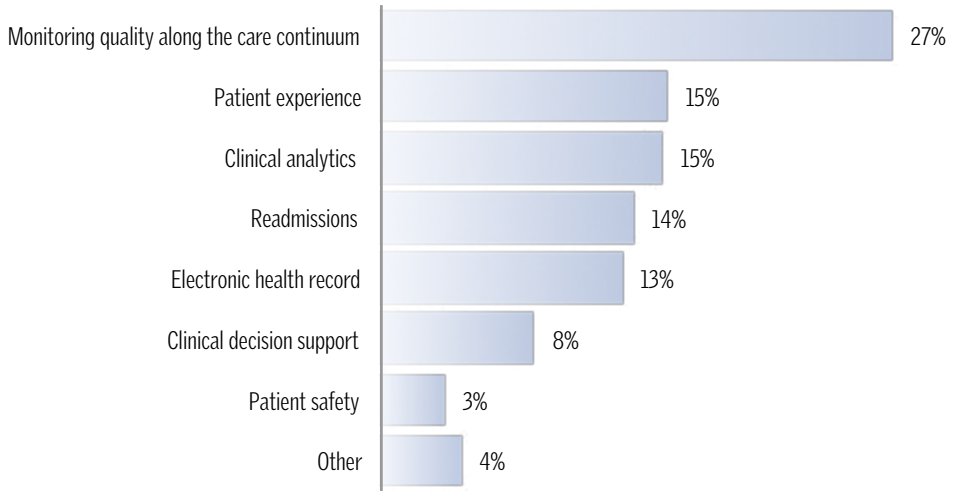
WHAT DOES IT MEAN?

It is concerning that significant shares of leaders don't think the industry's shift from volume to value will happen. With about one-quarter of hospitals and health systems and one-third of physician groups doubting that the basic tenets of reform will take hold, one has to wonder: Are these leaders somehow right in predicting that what is generally seen as an unsustainable system will somehow survive, or will their organizations be the ones that fail to change—and close their doors as a result? Interestingly, while 79% of leaders in the Northeast say the industry will make the transition, only 67% of leaders in the Midwest expect it to do so.

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?

Total responses



Base = 776

TAKEAWAYS

- Monitoring quality along the care continuum is identified as the greatest challenge to clinical quality improvement by more than one-quarter (27%) of respondents, making it the No. 1 choice overall.
- More physician organizations (36%) than health systems (27%) or hospitals (20%) cite monitoring quality across the care continuum as their greatest challenge.
- While patient experience is cited by 15% of respondents as the top clinical quality challenge, it is a greater concern among hospitals (19%) and health systems (18%) than physician organizations (8%).

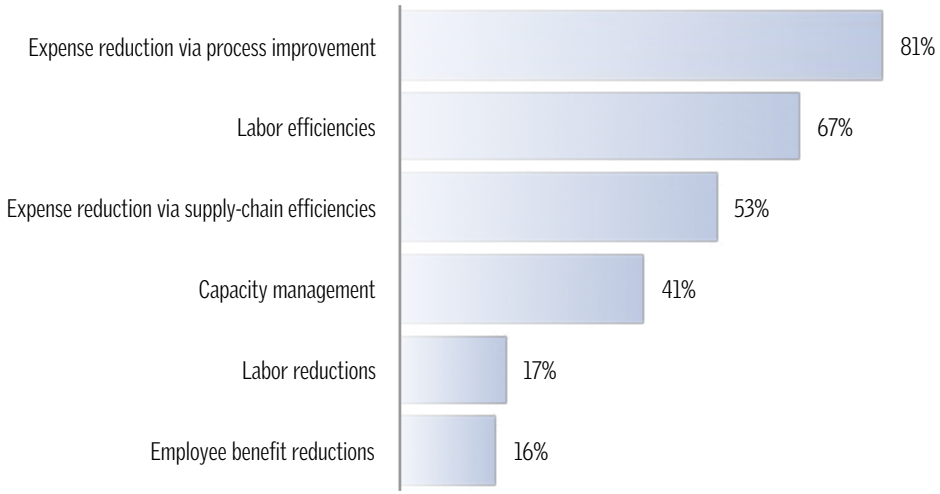
WHAT DOES IT MEAN?

The care continuum will hold providers accountable for patient care beyond their four walls, including pre- and postacute care, as well as hospital readmissions. Monitoring this care requires establishing strategic partnerships or alignments—with, for example, physicians, specialists, care managers, community health centers, and nursing homes—that will foster and standardize the exchange of patient information to ensure patient outcomes. As we see in Figure 5, an almost equal portion of respondents identified health information exchanges (76%), population health management (75%), and primary care redesign (74%) as opportunities. Healthcare leaders recognize that each plays a role in managing quality along the care continuum. The challenge is in putting the pieces together in a meaningful way.

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?

Total responses



Base = 792

TAKEAWAYS

- Registering the importance of producing sustainable results and taking the long view, process improvement is named among the top three cost-control focus areas by 81% of respondents.
- Health systems (89%), which have the resources and personnel to commit to process improvement, are more likely than hospitals (77%) and physician organizations (78%) to identify process improvement, but it is the top cost-control choice across all three settings.
- Across all settings, labor efficiencies (67%) is the second cost-control choice. The emphasis on process improvement, including analytics, will help in identifying opportunities to use labor more effectively and efficiently. Despite the dominance of leaders' reliance on efficiencies, one in five hospitals (20%) will look to labor reductions to control costs, which is somewhat greater than health systems and physician organizations (16% each).

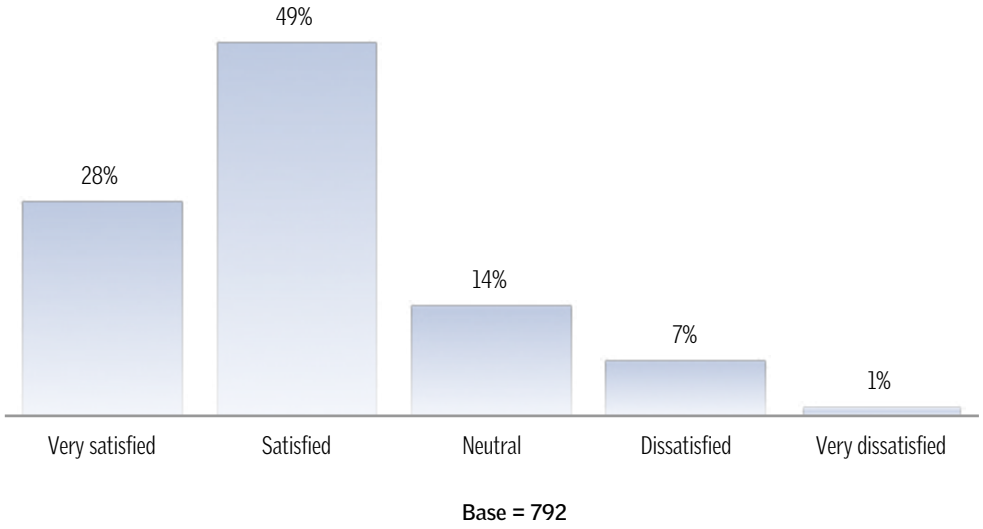
WHAT DOES IT MEAN?

To be successful and produce returns year after year, expense reduction must be sustainable. Process improvement provides the structure for an organization to assess and reassess how it controls costs. When implemented correctly across an organization, the process becomes part of the culture and is hardwired for daily practice, which often reduces the need for more severe steps such as labor reductions (17%) or employee benefit reductions (16%).

FIGURE 9 | Job Satisfaction

Q | Describe your overall job satisfaction.

Total responses



TAKEAWAYS

- More than three-quarters say they are satisfied (49%) or very satisfied (28%) with their jobs.
- Only 8% have a negative view: Seven percent are dissatisfied and 1% are very dissatisfied with their jobs.
- There is no discernible difference in satisfaction levels among leaders at hospitals (78%), health systems (80%), or physician organizations (77%).

WHAT DOES IT MEAN?

It is promising that 77% of leaders find satisfaction in their work. Dealing with the many unknowns in the evolving healthcare landscape can test the mettle of even the best leaders, but only 1% say they are very dissatisfied with their jobs. Still, as Report Advsior and St. Luke's Health System President and CEO David C. Pate, MD, JD, notes in our analysis, having a high a proportion of the leadership team being dissatisfied or neutral (22%) is a concern. "If you've got some leaders in organizations who aren't happy or aren't very satisfied, what's that doing to the teams that they lead?"

FIGURE 10 | Overall Performance for Various Groups

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

Total responses

	Very strong	Strong	Neutral	Weak	Very weak
Leadership team	26%	46%	16%	11%	2%
Board of trustees	19%	40%	28%	11%	2%
Finance staff	16%	47%	26%	10%	2%
Nursing staff	15%	48%	28%	8%	1%
IT staff	13%	41%	30%	13%	3%
Physician staff	13%	41%	33%	11%	1%
Frontline staff	12%	55%	27%	6%	1%
Data analytics staff	9%	31%	35%	21%	4%
Midlevel managers	8%	45%	34%	12%	1%

Base = 792

TAKEAWAYS

- Performance by the leadership team was rated as strong (46%) or very strong (26%), with little variation by setting.
- Hospitals were more likely to respond that leadership is weak or very weak (15%) than health systems (11%) or physician organizations (7%).
- Physician staff was rated strong or very strong by 51% of hospitals and 57% of health systems, while 65% of hospitals and 63% of health systems rated their nursing staff as strong or very strong.
- The data analytics staff was identified as weak or very weak by 25%, the highest among the weak ratings. In second place was the IT staff (16%).

WHAT DOES IT MEAN?

Healthcare reform is placing unprecedented challenges on the IT staff to implement the systems to meet new coding requirements (ICD-10), achieve meaningful use, and participate in health information exchanges. Also, effective participation in new reimbursement strategies—such as bundled payments—requires the integration of clinical and financial data. This is the time for the IT and data analytics staff to bring their "A" game, and yet these folks are rated as weak or very weak by 16% and 25% of respondents, respectively. Advisors suggest that the demand for this skill group is simply outpacing the population of highly qualified data and IT personnel.

FIGURE 11 | Overall Performance for Various Functions

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

Total responses

	Very strong	Strong	Neutral	Weak	Very weak
Dedication to mission	43%	38%	15%	4%	1%
Clinical quality and patient safety	30%	50%	16%	3%	1%
Patient experience	18%	47%	22%	12%	1%
Healthcare IT	12%	38%	31%	16%	3%
Financial/business analytics	12%	42%	30%	14%	2%
Care coordination	10%	45%	27%	16%	2%
Cost control	10%	42%	30%	16%	2%
Clinical analytics	8%	31%	36%	23%	2%
Population health management	5%	21%	41%	25%	7%

Base = 792

TAKEAWAYS

- Perhaps reflecting their smaller patient volumes, 69% of physician organizations and 53% of hospitals rate their care coordination efforts as strong or very strong. Meanwhile, less than half of health systems (42%) rate themselves as strong or very strong. Perhaps more telling, few leaders describe their care coordination as very strong: just 15% of physician organizations, 8% of hospitals, and only 3% of health systems.
- Clinical analytics presents a problem across all settings. Just over one-third of hospitals (38%), health systems (35%), and physician organizations (36%) rate themselves as strong or very strong. Meanwhile, around one-quarter of hospitals (28%), health systems (25%), and physician organizations (26%) rate their current performance as weak or very weak.
- Another area where leaders clearly show a need for improvement is in population health management; 39% of hospitals, 36% of health systems, and 30% of physician organizations acknowledge they are weak or very weak in this developing area.

WHAT DOES IT MEAN?

We expect to see high marks for dedication to mission (81%), but it is disconcerting to have key components of the evolving healthcare system—such as clinical analytics—rated as weak or very weak by 25% of respondents. Granted, some weakness is to be expected in a new discipline, but continued weakness in clinical analytics will have a negative effect on population health management, which 32% rate as weak or very weak. However, there are promising signs. We know from Figure 5 that 75% of respondents see opportunities in population health management, and looking forward to Figure 15, we see that 54% of respondents expect to begin or increase investment in data analytics over the next three years.

FIGURE 12 | Performance for Various Areas

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

Total responses

	Very strong	Strong	Neutral	Weak	Very weak
Prospects for growth	20%	45%	23%	11%	1%
Strategic planning	17%	43%	24%	14%	2%
Fiscal management	15%	49%	25%	10%	1%
Physician recruitment and retention	11%	40%	33%	13%	2%
Physician-hospital alignment	11%	36%	35%	15%	2%
Strategic marketing	10%	32%	32%	20%	5%
Collaboration/relationships with providers	9%	48%	33%	9%	1%
Capacity management	8%	42%	37%	11%	2%
Price transparency	7%	28%	40%	20%	6%
Collaboration/relationships with payers	6%	39%	42%	12%	1%

Base = 792

TAKEAWAYS

- Some 65% of respondents say their prospects for growth are strong or very strong. Significantly more physician organizations (78%) than health systems (64%) or hospitals (59%) rate their prospects for growth that way. These figures are largely consistent with last year's survey, except for health systems, where the percentage of leaders who rate their prospects as very strong has dropped to 14% from 28%.
- Overall, respondents are more confident about their collaboration with other providers than payers, with 57% rating their provider relationship as strong or very strong, but only 45% saying the same about their payer relationships.

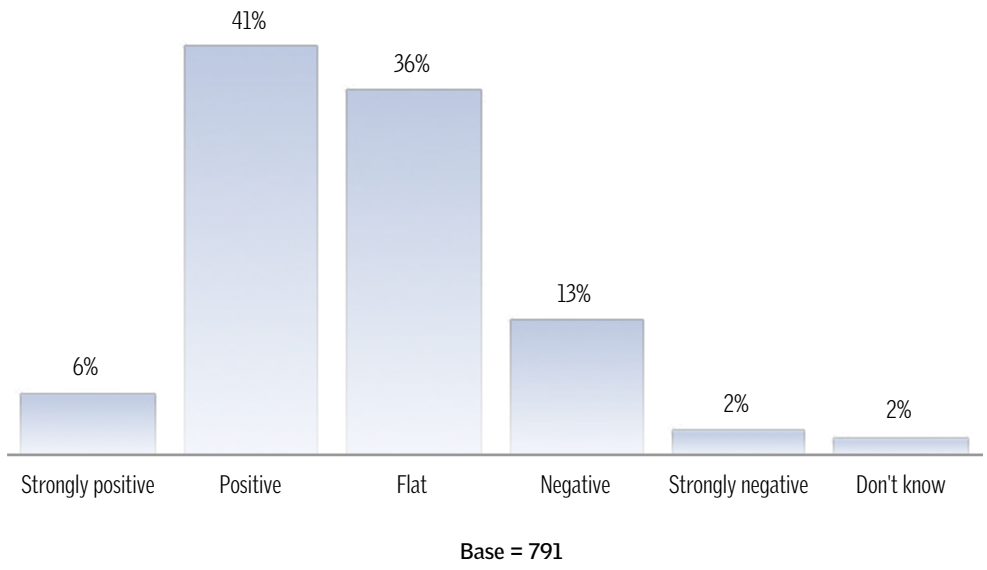
WHAT DOES IT MEAN?

While two-thirds of respondents view their opportunities for growth as strong or very strong, which is consistent with responses over the past six years of our annual survey, some of the building blocks of value-based care are in need of improvement: Less than half rate physician-hospital alignment (47%) or collaboration with payers (45%) as strong or very strong.

FIGURE 13 | 2014 Financial Forecast

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

Total responses



TAKEAWAYS

- Less than half of healthcare leaders (47%) are strongly positive or positive about their organization's financial prospects for 2014. That is a less optimistic outlook than last year's survey, which found 55% were strongly positive or positive.
- Physician organizations are the most optimistic, with 59% saying their financial prospects are strongly positive or positive, compared to 42% of health systems and hospitals.
- More hospitals (19%) and health systems (18%) than physician organizations (9%) say their financial prospects are strongly negative or negative.

WHAT DOES IT MEAN?

Expectations overall are a bit lower than in last year's survey. This is a big year in the life of the Affordable Care Act as major reforms go into effect, such as the expansion of Medicaid benefits and enrollment opportunities through the health insurance exchanges. It is no longer business as usual, and hospitals and health systems—although cautiously optimistic on some fronts—are clearly concerned about their bottom lines. Meanwhile, physician organizations are surprisingly upbeat about their financial prospects, despite ongoing threats of lower reimbursement rates from government payers and the intricacies of new contracting vehicles, which often hold physicians responsible for patient outcomes.

FIGURE 13 *(continued)* | 2014 Financial Forecast

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

Click on these icons to dig deeper

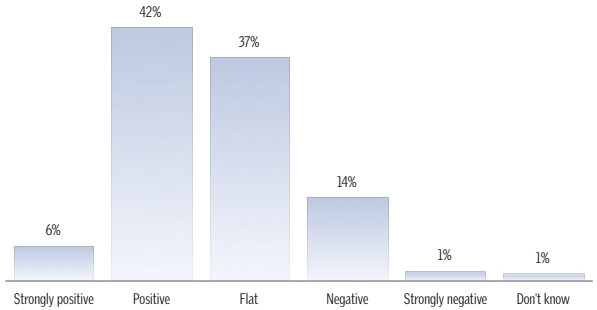
VIEW BY PRODUCTS/SERVICES
Indicates the type of goods or services the respondent is involved in purchasing

VIEW BY INVOLVEMENT
Indicates the role of the respondent in making purchasing decisions

VIEW BY DOLLARS INFLUENCED
Indicates the total dollar amount the respondent influences

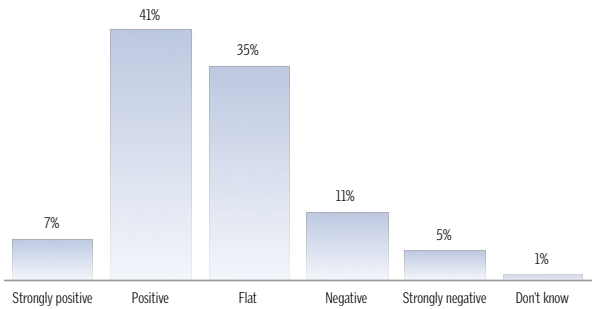
PRODUCTS/SERVICES

Clinical products



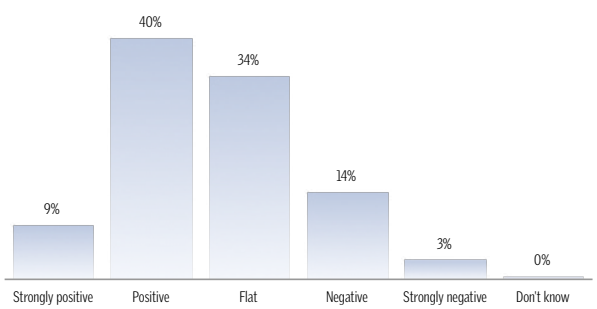
Base = 413

Financial services



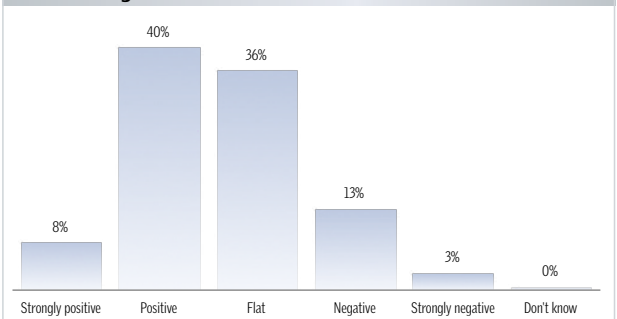
Base = 252

Executive search



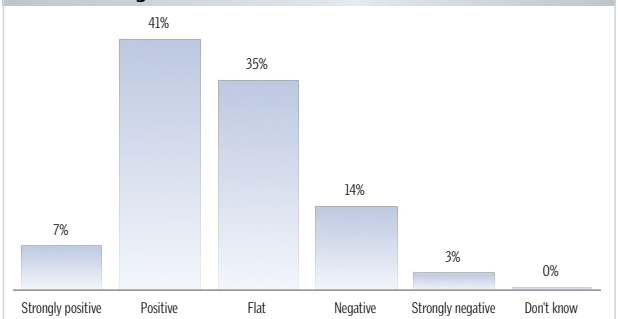
Base = 271

Consulting services



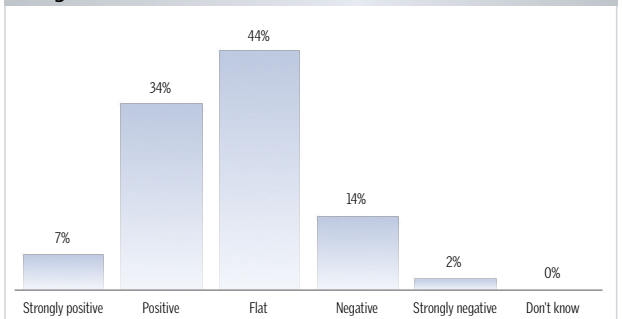
Base = 378

Outsourcing services



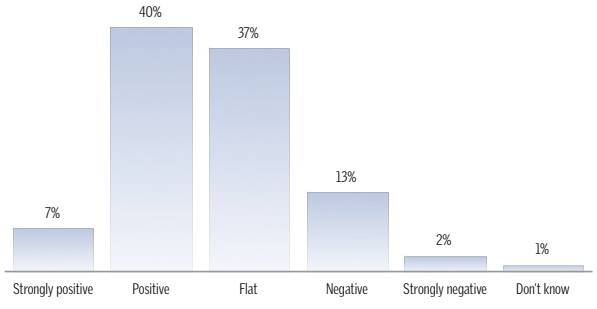
Base = 297

Legal services



Base = 199

Information technology

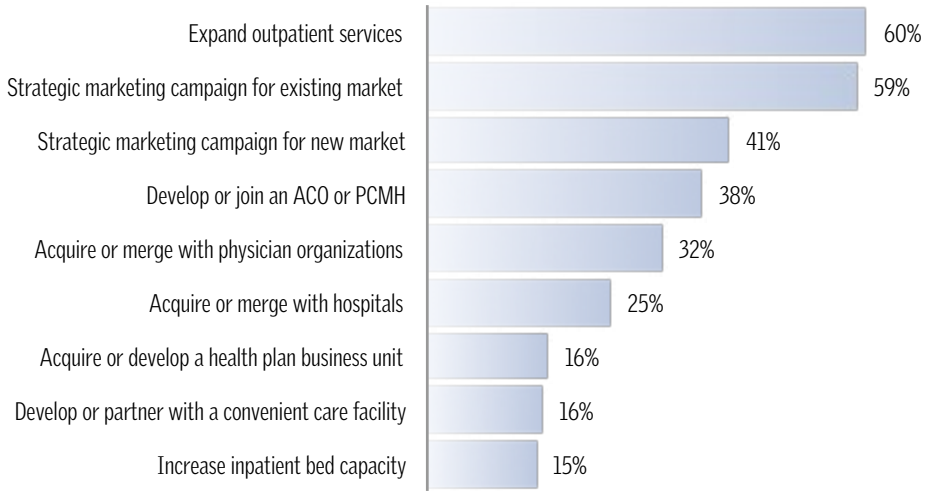


Base = 422

FIGURE 14 | Fueling Financial Growth Over the Next Five Years

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

Total responses



Base = 792

TAKEAWAYS

- The trend toward expansion of outpatient services to fuel financial growth over the next five years continues, with health systems (74%, up from 66% last year) and hospitals (70%, up from 69% last year) pursuing this path.
- Leaders are showing heightened interest in strategic marketing campaigns for existing markets (59%) and new markets (41%), both of which are up double digits over last year's 43% (existing) and 30% (new).
- Despite the focus on outpatient services, a notable share of hospitals (18%) and health systems (15%) are looking to boost inpatient bed capacity as part of a financial strategy. That varies by size, but in different ways. While 14% of small hospitals and 27% of large hospitals are on this path, it is 27% of small health systems and 12% of large systems that are likewise planning to increase inpatient beds.

WHAT DOES IT MEAN?

While we saw in Figure 6 that 72% of respondents said the industry will make the switch from volume to value, the responses here seem to indicate that the shift may move at a glacial pace. Over the next five years, respondents expect to continue to rely on volume to drive financial growth, with increased marketing for new and existing markets and even more inpatient beds. As well, more than one-third of respondents (38%) are looking to ACOs or PCMHs to fuel financial growth, but the long-term ability of such models to contribute to the bottom line is more a goal than a certainty.

FIGURE 15 | Investments Over Next Three Years

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

Total responses

	Percent
Patient experience improvements	62%
Data analytics	54%
EHR	52%
Continuous improvement techniques such as Lean	50%
Integration of clinical and financial data	49%
Nurse navigators, care coordinators	42%
Facility expansion or renovation	41%
Service line redesign or realignment	41%
Expansion of ambulatory care network	38%
Primary care redesign	33%

Base = 786

TAKEAWAYS

- Patient experience improvements top the list, mentioned by 62% of respondents as an area of investment over the next three years. Investment in integration of clinical and financial data is more often mentioned by health systems (62%) than physician organizations (52%) or hospitals (40%).
- Overall, one-third of respondents identified primary care redesign as an investment, but the breakdown by setting isn't so uniform: This area was named by 48% of health systems, 36% of physician organizations, and 29% of hospitals.

WHAT DOES IT MEAN?

Patient experience encompasses both clinical and nonclinical staff interactions, combining process and culture to improve clinical quality and safety, as well as patient satisfaction. The success of patient experience is measured in part by HCAHPS scores. Low scores could affect patient volume, making it more difficult to attract providers and reducing reimbursements. And while it is expected that patient experience will continue to get attention, it is notable that the items occupying second and third place on the list of investments are EHRs and data analytics, which represent major costs. Of course, those who plan to pour money into an EHR may want to review Figure 16.

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

Total responses

	Percent
EHR	27%
Service line redesign or realignment	25%
Facility expansion or renovation	23%
Continuous improvement techniques such as Lean	21%
Patient experience improvements	15%
Primary care redesign	14%
Data analytics	14%
Nurse navigators, care coordinators	12%
Integration of clinical and financial data	11%
Expansion of ambulatory care network	10%

Base = 401

TAKEAWAYS

- Overall, more than one-quarter describe EHR as a waste of money, putting it at the top of the list. More hospitals and health systems (30% each) than physician organizations (19%) cite this unfortunate experience.
- But respondents do not lump together all tech-related investments. Indeed, only 11% of respondents say that their investments in integrating clinical and financial data turned out to be a waste (although the number is higher among health systems at 19%).
- The grand plans often associated with facility expansion or renovation were largely a waste for 19% of hospital and physician organizations, as well as nearly one-third (29%) of health systems.
- Expansion directed toward an ambulatory care network, however, proved more successful, with just 12% of hospitals and physician organizations and 6% of health systems saying such efforts were wasteful.

WHAT DOES IT MEAN?

In an industry so concerned about cost containment and increased value, it is unfortunate to see any efforts turn out to be fruitless. But given that none of the choices in this question was cited as a wasteful enterprise by a majority of respondents, it's possible that those who got burned may be at least partly responsible. Setting aside blame, however, the 30% of hospitals and health systems that have labeled their EHR expenditures as wasteful is a concerning figure—it may indicate that these organizations will be unable to accommodate the emerging need to integrate financial and clinical data. Subsequently, they may also be unable to relate the costs of patient care to outcomes, which is a critical requirement for population health.

FIGURE 17 | Performance on Cost Reduction Initiatives

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

Total responses

	Strong	Neutral	Weak	Don't know	Not involved
Cost containment/removing waste from the system	44%	35%	18%	1%	2%
Responding to reduced reimbursements	35%	40%	19%	3%	3%
Disease state management	33%	37%	19%	4%	6%
Reducing excess/unnecessary care	32%	42%	18%	3%	4%
Nurse navigators/care coordinators	26%	35%	21%	6%	13%
Preparing for bundled payments	21%	38%	23%	9%	8%

Base = 792

TAKEAWAYS

- Overall, 44% of respondents say their organizations are strong on cost containment. The results are similar across all settings.
- Preparing for bundled payments is a potential trouble spot, with 21% describing their performance as strong, and 23% saying it is weak. More than one-third are neutral (38%) on their performance.

WHAT DOES IT MEAN?

Although 44% identify themselves as strong on cost containment, they have work to do in terms of developing their performance on newer cost reduction tactics that are expected to prevail as healthcare delivery focuses on value-based care.

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