


HEALTHCARE TRENDS

2017 Whitepaper

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“Healthcare continues to provide an outstanding opportunity for decisive, competent leadership.”

—2017 TRENDS SURVEY RESPONSE

OPTIMISM REMAINS STRONG AMONG HEALTHCARE INDUSTRY LEADERS

Two-thirds of healthcare leaders are optimistic regarding the 2017 outlook for the healthcare industry, according to a survey of nearly 1,000 executives taken after the 2016 U.S. presidential election.

Long-range drivers of demand for healthcare services, such as the aging of the U.S. population, will continue to expand the industry, even in the current era of changing healthcare policy, healthcare executives say. Only a small percentage of those healthcare leaders surveyed said they were not optimistic.

“Healthcare is full of challenges, but I am confident we can overcome them as an industry,” one executive said.

“As a long-time professional, I know that the industry has the capabilities to make any system work,” another said.

Among reasons for their optimism, healthcare executives cited growth and change in the industry and opportunities for organizations and careers. The changing nature of healthcare puts a premium on leadership; the survey examined the significant opportunities related to healthcare leadership due to the vibrancy of the industry.

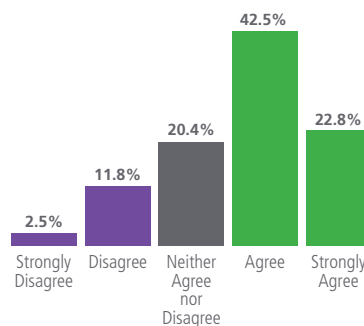
“Healthcare is in transition, and good strong leadership is a must,” a survey participant said.

Fully 85% of healthcare leaders have been approached with an opportunity in the last 12 months, and 43% of them pursued the opportunity. Nearly 57% said they are considering a career change within the next year.

Interestingly enough, among healthcare executives who are not currently considering a career change, 79% said they would consider a change for the right opportunity.

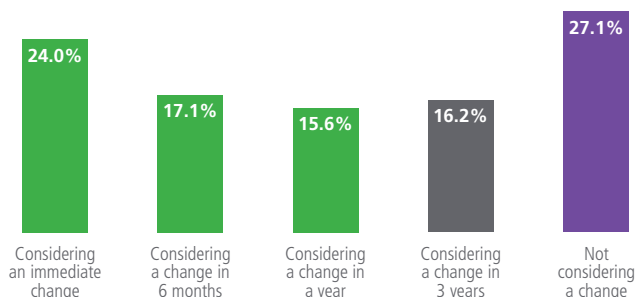
TWO-THIRDS OF HEALTHCARE LEADERS ARE OPTIMISTIC regarding the 2017 outlook for the healthcare industry

2017 Healthcare Industry Optimism



ACTIVE VS. PASSIVE CANDIDATES

Timeline for considering a career change



Of healthcare leaders **NOT** considering a career change:

- 79% would consider a change for the right opportunity
- 80% have been approached about a credible opportunity within the last year
- 21% of those considered and pursued the opportunity

COST CONTROL DOMINATES HEALTHCARE ECONOMICS

Overall spending grew by 5.5% for the period October 2015 to 2016, a slight downtick from the rate estimated by CMS of 5.8% for all of 2015.¹ Hospital care and nursing homes generated the largest increases, both over 6%. Prescription drugs were under intense scrutiny during the year since prescription claims were estimated to be up over 13% driven by “increase in both the cost and use of specialty drugs.”² Prescription drugs now account for 17% of employer health benefits.³ Figure 1 displays how U.S. healthcare spending is currently allocated.⁴

All industry participants remain highly focused on containing costs. While spending growth rates have been declining over the past decade, 2017 may reverse course. One leading forecaster predicts a 6.5% rise in 2017.⁵ This environment will prove challenging for providers. Moody’s believes “increasing supply costs and the possibility of wage pressure from the improving economy will add to margin pressure.”⁶ Fitch maintains a “stable” rating for non-profit hospitals for 2017, but a negative outlook with “slightly weaker” profitability and growing regulatory and political uncertainty.⁷ That scenario could further strain a market characterized by 30% of hospitals running negative margins⁸ and 8% of rural hospitals at “high risk of financial distress.”⁹ Clearly healthcare organizations will not be able to relax their cost control diligence in 2017.

NEED TO STAY COMPETITIVE THROUGH AGILITY, INNOVATION

“Healthcare is in transition and good strong leadership is a must.” That quote summed up the feelings of many survey respondents that agility, innovation, and creative leadership are management imperatives in 2017. No doubt this perspective stems in part from the unfulfilled promise of change. One report finds that “fewer than a quarter

FIGURE 1

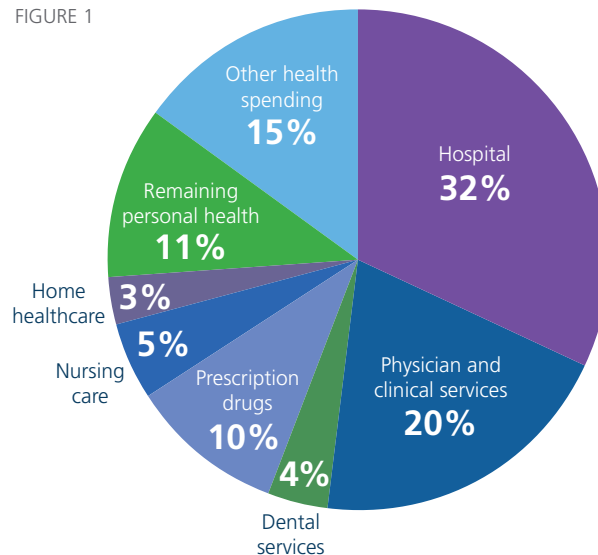
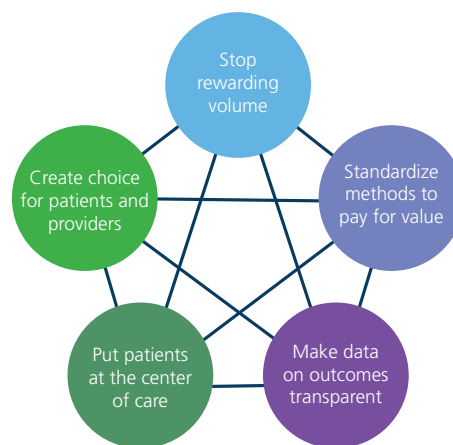


FIGURE 2

CATALYSTS FOR COMPETITION

Five interrelated actions can spur value-based competition in healthcare



¹ Altarum Institute, *Spending Brief*, “Insights from Monthly National Health Spending Data,” December 13, 2016.

² D. Gowen, “Semi-annual carrier survey: Healthcare claim trend projections for 2017,” *Wells Fargo Insurance Insights*, May 2016.

³ Pricewaterhouse Coopers Health Research Institute, *Medical Cost Trend: Behind the Numbers 2017*, June 2016.

⁴ Altarum Institute, *Spending Brief*, “Insights from Monthly National Health Spending Data,” December 13, 2016.

⁵ Pricewaterhouse Coopers Health Research Institute, *Medical Cost Trend: Behind the Numbers 2017*, June 2016.

⁶ American Hospital Association, “2017 American Hospital Association Environmental Scan,” *Hospitals & Health Networks*, September 2016.

⁷ “Fitch Ratings Report: Not for Profit Outlook,” *Business Wire*, Dec 9, 2016.

⁸ American Hospital Association, “Trends in Hospital Financing,” *TrendWatch Chartbook 2016*.

⁹ North Carolina Rural Health Research Program, “Trends in Risk of Financial Distress among Rural Hospitals,” October 2016.

of U.S. hospitals are on track to hit Medicare's 2018 goal" for value-based payments and only 23% expect to attain the goal by 2019.¹⁰

A thought-provoking recent Harvard Business Review article asserts that healthcare's response needs to be more rather than less competition. Facing market challenges from growth in telemedicine and over 2,000 retail clinics, successful hospital leaders will embrace strategies that are proactive competitive catalysts, as summarized by the authors in Figure 2.¹¹

Figure 3 encapsulates several comments that convey the survey conclusions related to the necessity for agility and change management.

FIGURE 3

"Great change brings great opportunity to redesign and innovate our work."

"There will be changes and new opportunities to be creative in how healthcare faces the upcoming challenges under a new government administration."

"I think this is a time of change and while change can feel awkward and uncomfortable, it is also a mechanism for exploring a new way of doing things and opportunities."

"Leadership that is creative and nimble will do well and the affected patient populations will benefit."

MAJOR FOCUS ON RIGHT LEADERSHIP COMPETENCIES

Views about leadership requirements reflected the need for agile navigation of today's trends. Leadership competencies was named by 30% as their "top concern" for the coming year. When probed about the most desired leadership attributes, 38% said Vision and Strategy and 28% named Integrity. Agility was the third most-cited attribute. Taken together, these competencies suggest a model that optimizes the mix of personal and strategic skills viewed as likely to spell success in today's healthcare landscape.

It is important to note these requirements are not static. B.E. Smith has written extensively about the ways in which leadership roles are changing, and the survey found that almost 18% believe that "evolving leadership roles and competencies" will have the greatest impact on their organizations' futures. Leaders clearly must maintain diligence in monitoring these dynamic role changes.

WATCH FOR RISING EMPLOYEE MOBILITY

Healthcare jobs grew 2.7% for the year period ending in November 2016, a small decline from previous 3% run rates that appears attributable to a slowdown in recent expansion of insurance coverage. Strong annual job growth of 5.5% was registered in outpatient care centers and 4.1% in home health, continuing a long-run shift B.E. Smith has consistently observed toward non-acute care settings.¹² The fastest growing occupations are clinical: the physician/NP/PA category grew by 6.7% over the 2013-2015 period, while RNs grew 3.6%.¹³

Steady growth fuels an already competitive labor market and could portend a rise of employee mobility, placing organizations at greater risk of turnover. Satisfaction is a key metric to monitor in this equation. The Intelligence Report found that while 75% of respondents registered satisfaction with their current positions - a strong showing though down from last year's 88% - only 30% say they are "highly satisfied." This finding suggests opportunity for improvement.

¹⁰ K. Gooch, "Fewer than a Quarter of U.S. Hospitals on Track to Hit Value-based Payment Goal, Survey Finds," *Becker's Hospital Review*, June 9, 2016.

¹¹ L. Dafny and T. Lee, "Healthcare Needs Real Competition," *Harvard Business Review*, December 2016.

¹² Altarum Institute, *Labor Brief*, "Insights from Monthly Employment Data," December 13, 2016.

¹³ Altarum Institute, *Health Sector Trend Report*, November, 2016.

Increasing mobility may be implied in survey evidence on those considering a career change. A finding that leapt out from the survey: only 27% said they are not considering a change versus 43% last year. A source of additional concern comes from the fact that 57% are considering a change within one year – 24% immediate! Both figures sharply exceed results from last year's survey.

The situation is particularly critical given that 85% of respondents have been approached with a new opportunity in the past year. Many individual comments showed that a key strategy to counteract the offer onslaught and promote retention is not compensation as much as helping employees feel “respected,” “appreciated,” and “valued” as part of a productive team.

ADVANCEMENT POTENTIAL BREEDS SATISFACTION

A key barometer of propensity to become either an active or passive job candidate is perception of advancement potential. Here again the survey offered evidence of concern and room for improvement. As Figure 4 shows, 42% believe they must leave the organization to advance, which is fully 16 points higher than last year. Much of that increase came at the expense of those “not seeking to advance.” Undoubtedly some of this shift is attributable to the broader range of executive levels surveyed this year; nonetheless, the direction suggests that many organizations should augment efforts to foster career advancement.

Providing meaningful growth opportunities for those who wish to advance while also supporting high performers who are content in their roles can pay significant dividends beyond reduced exposure to employee loss. The Intelligence Report quantifies the direct and vital correlation with job satisfaction. For those on the advancement track, 46% are “highly satisfied” as are 40% of those not seeking to advance. Conversely, the level for those who feel they must leave plummets to only 16%. B.E. Smith regularly counsels organizations to structure and widely communicate advancement paths that are supported by training, job rotation, and other best practices.

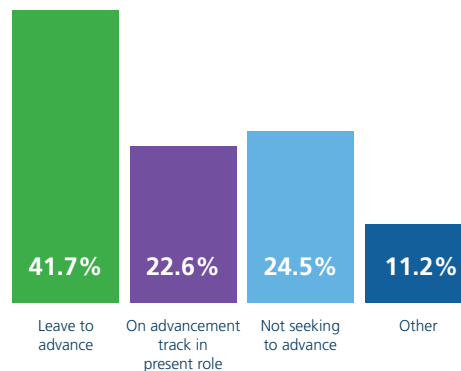
FINDING HIGH QUALITY TALENT A TOP PRIORITY

As it has for several years running, access to high quality talent tops the list of recruitment challenges for leaders. Two-thirds feel that finding quality candidates is the biggest challenge in filling executive vacancies. The strong labor market and improving economy add another hurdle. As one analyst suggests: “Higher labor costs make it more difficult for healthcare organizations to hire the best qualified job candidates.”¹⁴ The search for quality can be protracted, so it is not surprising that a significant 26% of surveyed executives cited “providing leadership during vacant periods” as their chief challenge.

Which factors most positively influence the talent search? The survey produced an interesting revelation. The top responses, Organizational Brand/Culture at 34% and Compensation at 28%, handily beat two

FIGURE 4

Which of the following best describes the outlook for your career advancement?



¹⁴ S. Hendricks, “Top 3 Healthcare Trends that Hospitals Should Anticipate in 2017,” Medelita blog post, Oct 18, 2016.

mainstays of recruitment focus: management and current employees. While candidates certainly evaluate their potential managers and peers in the decision process, it may be that the growing competitive market is placing new premiums on broader job attributes as candidates become more selective. Hiring executives should devote extra attention to the cultural fit and financial incentives that motivate the desired quality talent.

SEEKING LEADERSHIP “OUTSIDE THE FOUR WALLS” CONTINUES

While the Intelligence Report confirmed that over half of organizations anticipate reliance on internal development to strengthen leadership ranks in 2017, a notable one in five cited two externally-oriented alternatives:

- Recruiting up and coming healthcare leaders from outside the organization
- Recruiting experienced leaders from other industries

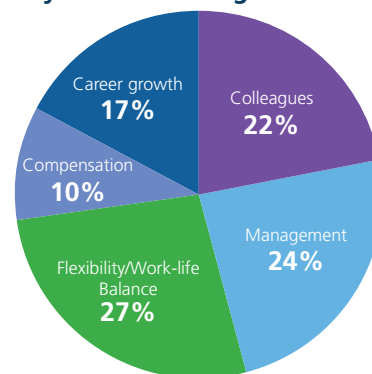
These tactics showed an increase over last year’s survey. B.E. Smith believes one explanation is a tighter market for experienced executives coupled with a greater willingness to bet on emerging outside leaders and non-industry veterans in an environment that demands adaptability and innovation. Finance and Hospitality were the two industries mentioned as most attractive sources of non-healthcare executives.

WORK-LIFE BALANCE AND FLEXIBILITY LEADING ENGAGEMENT INFLUENCES

Every year, the Intelligence Report probes the important and ongoing issue of employee engagement. Almost 63% of respondents described their employees as “actively engaged.” Underpinning this strong result were several drivers of personal engagement, summarized in Figure 5. Ability to achieve a work-life balance and flexibility in the job led the way for the first time, edging out the perennial leading factors of management and colleagues. The balance variable also led as the motivator for employee retention. Healthcare’s rapid changes and high-stakes pressures to achieve cost and quality mandates are likely increasing stress levels and inducing for many a corresponding desire for career balance.

FIGURE 5

Which variable most influences your level of personal engagement in your current organization?



Many analysts have connected strong engagement with such benefits as better financial performance and higher customer satisfaction. One engagement specialist notes that “the empirical evidence leads to the conclusion that increases in employee satisfaction are associated with increases in patient satisfaction.”¹⁵ With the rise of consumer-driven healthcare, this connection assumes even greater urgency. As one study notes, “consumers want the same qualities in health care companies that they value in non-health settings ... great customer service.”¹⁶

¹⁵ A. Bontrager, “The Impact of Employee Satisfaction within the Hospital Setting,” *Customer Care News*, March 13, 2012.

¹⁶ American Hospital Association. “2017 American Hospital Association Environmental Scan,” *Hospitals & Health Networks*, September 2016.

PROGRESS REMAINS SLOW ON SUCCESSION PLANNING

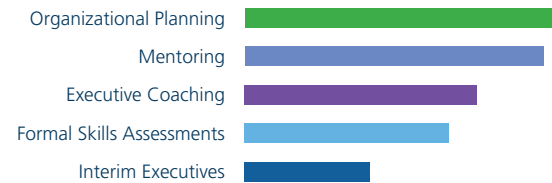
B.E. Smith has maintained a long-term commitment to helping organizations assess and develop succession planning programs as cornerstones of executive talent management. The trends highlighted in the Intelligence Report toward greater importance of culture and strategic vision in organizational success reinforce the value of

grooming leaders from within via succession planning. Yet progress on this front remains halting. Again this year, the survey revealed that about 50% of organizations have no succession program in place, and 31% have no plans for one. Of the 30% maintaining a program, 16% extend it to all levels of leadership. Cross-industry evidence suggests that barriers to effective succession planning for CEOs include: current acceptable performance, difficulty discussing with the executive, and diversion by other priorities.¹⁷

Succession planning can take many forms with a variety of tactics utilized. Respondents identified those most deployed as shown in Figure 6.

FIGURE 6

Which of the following does your current organization utilize as part of its succession planning?



CONCLUSION

The Intelligence Report showed the persistence of several long run trends in strategic environment, workforce management, and career planning. At the same time, several emerging issues were revealed. B.E. Smith enters 2017 focused in all its practice areas on helping healthcare organizations understand these trends and respond through the execution of successful leadership and workforce strategies.

¹⁷ L. Dyrda, "Eight Key Trends for Boards of Directors," *Becker's Hospital Review*, November 4, 2016.

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