

BEYOND THE TIPPING POINT:

# HOSPITAL RESILIENCE REVISITED



Survey Highlights

Written by

The  
Economist

Intelligence  
Unit

# Introduction

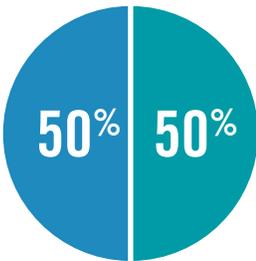
To assess the extent and nature of change in the U.S. hospital sector, The Economist Intelligence Unit (EIU) conducted a survey in February 2017, sponsored by Prudential, exploring the key challenges confronting U.S. hospitals. The survey polled 301 U.S. executives of hospitals of disparate size, geography, community type, ownership status and structure.

We identified three key categories among the survey findings: cost and strategies to contain it; impending talent shortages; and the impact of change, which encompasses policy, new business models, consolidation and innovation.

# WE SURVEYED:

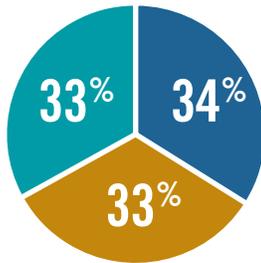
## SENIORITY

- 50% C-Suite
- 50% Non-C-Suite



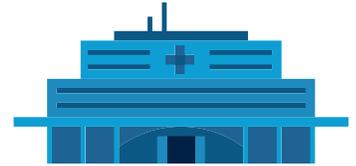
## KEY FUNCTIONS

- 34% Finance
- 33% Human Resources
- 33% General Management



## HOSPITAL STRUCTURE

- 39% Network
- 32% System
- 29% Stand Alone



## HOSPITAL SIZE (WORKFORCE)

- 41% Small (<250)
- 46% Medium (251-1,000)
- 13% Large (1,001+)

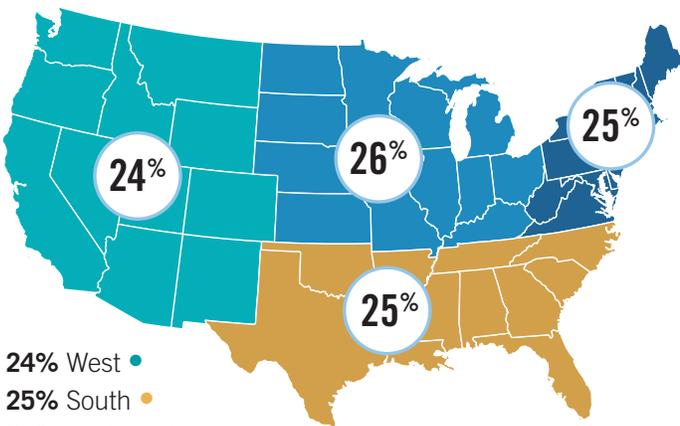


## HOSPITAL SIZE (# OF BEDS)

- 37% Small (<100)
- 34% Medium (100-399)
- 29% Large (400+)



## REGIONS



- 24% West
- 25% South
- 25% Northeast
- 26% Mid-West

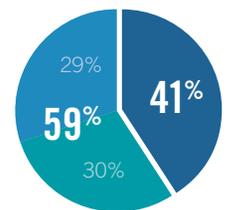
## GEOGRAPHY

- 51% Urban
- 49% Suburban/Rural



## OWNERSHIP

- 41% Government
- 59% Non-Government (Not for profit 29%)
- Investor owned 30%



## Cost cutting is a priority—and hospitals are looking at ways to retrench

Budget constraints can touch on almost every aspect of hospitals' operations and strategy. Costs limit what hospitals can do to improve care—whether that entails hiring top clinical experts or buying the latest equipment. So it is not surprising that rising costs have become a dominant concern in this year's research (78% of respondents cited this as critical or extremely critical).

Cost cutting is shaping hospital strategies. For example, nearly half of hospital executives believe that they will engage in mergers and acquisitions (M&A) or more informal partnerships, specifically to benefit financially from the economies of scale they hope those will yield. And while fewer survey respondents are opting to limit this, payroll is clearly a cost-control tool. Some 58% of respondents are adopting at least one of three strategies—outsourcing services, restricting pay increases or changing care pathways to lessen the need for high-cost talent.



**In the next three years, what will be your organization's top strategies for containing costs?**



Reviewing and optimizing current operational and clinical processes

38%



Eliminating unprofitable services

35%



Seeking lower-cost suppliers for inputs

35%



Partnering with other hospitals/hospital groups to create economies of scale

29%



Increasing role in preventative/primary care and integrated care to reduce costs for value bases, population care contracts

29%

Source: Economist Intelligence Unit survey, February 2017

Costs appear to be raising many obstacles to hospitals' plans to improve quality of care—even to investments that could generate savings in the long run. The shift from fee-based to value-based care is a case in point. Cost is the second most frequently cited barrier by survey respondents in the move to value-based care, with almost half of respondents (45%) seeing this as an obstacle.

Similarly, there has been much talk about how digital technology and data analytics are transforming healthcare. Yet hospital executives put these technologies lower on their priority list than many other items, with many (45%) citing costs as a barrier.

Thus hospitals are looking across the enterprise to find cost savings. And the sector appears to be ramping up its efforts to optimize efficiency. Areas of focus include seeking lower-cost suppliers, eliminating unprofitable services, consolidating operations in fewer locations and reviewing operational and clinical processes.

These strategies may not be among the most innovative, but they appear to be working. In recent years, hospitals and health systems have made significant advances in controlling costs, with hospital price growth just 0.9% in 2015, the slowest rate since 1998 and down from 4.4% in 2006, according to the American Hospital Association (AHA).<sup>1</sup>

<sup>1</sup> American Hospital Association, *The Cost of Caring*, February 2017; [www.aha.org/content/17/costofcaringfactsheet.pdf](http://www.aha.org/content/17/costofcaringfactsheet.pdf)

**58%** of hospitals are adopting at least one of three strategies:



1. Outsourcing services
2. Restricting pay increases
3. Changing care pathways to lessen the need for high-cost talent

**45%** of respondents saw cost being the second most frequently cited barrier in the move to value-based care

**45%** of hospital executives put transforming technology lower on their priority list than many other items citing costs as a barrier

**0.9%** hospital price growth in 2015, slowest rate since 1998

**4.4%** hospital price growth in 2006



## Talent acquisition rises up the agenda, with hospitals looking beyond compensation for solutions

People represent a substantial investment for the hospital sector. Wages and benefits account for nearly 60% of costs for inpatient hospitals, according to the AHA.<sup>2</sup> Yet while cost cutting is a priority, executives recognize that talent is an area they cannot neglect without endangering performance. Accordingly, talent has become a far more pressing issue in the past year.

While talent-related costs may be a worry, an equally pressing concern is that a different type of crunch looms—a talent shortage. Most respondents (more than 90%) believe that in the next 10 years they will experience a deficiency of specialists, generalist physicians, nurses and other clinicians that will hamper their ability to deliver high-quality care. On average, the problem is expected to become apparent in three years. Moreover, just under one in five executives says shortages of nurses—the backbone of the hospital workforce—are already being felt. And almost half (48%) say specialist nurses are the most difficult types of employees to attract.



**Which of the following strategies is your organization employing today to attract top talent?**



**40%**

Offering flexible work arrangements



**40%**

Eliminating unprofitable services



**39%**

Seeking lower-cost suppliers for inputs



**34%**

Increasing role in preventative/primary care and integrated care to reduce costs for value bases, population care contracts



**33%**

Partnering with other hospitals/hospital groups to create economies of scale



**MORE  
THAN 90%**

**OF RESPONDENTS BELIEVE THAT IN THE NEXT 10 YEARS THEY WILL EXPERIENCE A DEFICIENCY OF SPECIALISTS, GENERALIST PHYSICIANS, NURSES AND OTHER CLINICIANS THAT WILL HAMPER THEIR ABILITY TO DELIVER HIGH-QUALITY CARE.**

So how are hospitals responding? The answer no longer lies in “throwing money at the problem.” With a new generation entering the workforce, all employers—including hospitals—recognize that attracting the best talent requires more than remuneration. A carefully designed combination of pay and benefits is critical.

Of non-financial rewards, top of the list for executives are flexible working arrangements and opportunities for training and professional advancement (40% of respondents favored these measures). Hospitals also recognize the importance of ensuring that total compensation packages (including benefits) are market-leading, with more than one-third of respondents selecting this option.

<sup>2</sup> American Hospital Association, *The Cost of Caring*, February 2017; [www.aha.org/content/17/costofcaringfactsheet.pdf](http://www.aha.org/content/17/costofcaringfactsheet.pdf)

## From policy reform to business models, sweeping changes are on the horizon

With a U.S. administration that is dedicated to repealing and replacing the Affordable Care Act (ACA) and a wave of U.S. hospital consolidation that looks set to continue, change and uncertainty are part of daily life for executives in the hospitals sector.

Obviously, prospects for a changing regulatory environment cannot be ignored. Uncertainty over legislative and regulatory support for the shift to value-based care is seen as the top barrier to this transformation. And policy uncertainty appears to be slowing decision-making, precipitating a review of existing strategies or causing investment plans to be put on hold.

When it comes to policy shifts, hospitals are bullish about one part of the new administration's agenda—its pro-business stance. This may have the greatest impact for the industry in prospects for increased M&A activity. Some 73% of hospital executives (including 79% of CEOs) believe that the business-friendly policies of the new administration will favor M&A.



# 73%

of hospital executives (including 79% of CEOs) believe that the business-friendly policies of the new administration will favor M&A.



# 50%

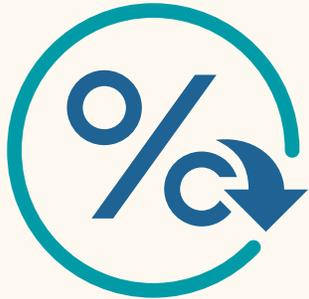
of hospital executives see M&A activity or increased partnerships as a way of cutting costs in the next three years.



# 48%

say specialist nurses are the most difficult types of employees to attract.

*Source: Economist Intelligence Unit survey, February 2017*



**AND OF THOSE SAYING THEY WILL EMBARK ON  
MORE PARTNERSHIPS WITH OTHER HOSPITALS,**

**32%** **SEE THIS AS A WAY TO  
REDUCE COSTS OVER  
THAT TIME PERIOD.**

Politics aside, the concerns of survey respondents create compelling reasons for mergers or partnerships with others. First, the economies of scale generated by this strategy address the cost concerns of the sector. Nearly half of hospital executives see M&A activity or increased partnerships as a way of cutting costs in the next three years. And of those saying they will embark on more partnerships with other hospitals, 32% see this as a way to reduce costs over that time period.

## Conclusion



### **DELIVERING HIGHER-QUALITY CARE AT A LOWER COST.**

For hospital leaders, the overall picture is challenging. The sector is heading into an era of policy uncertainty combined with the daunting prospect of a rapidly aging population, requiring both more care and more complex care. In this environment, nothing will be easy—and the survey reveals industry executives are keenly aware of the urgent need for solutions.

Some of this is relatively straightforward: cost cutting and talent acquisition can be implemented without embarking on transformational change. However, one solution to today's challenges—merging or partnering with others to gain economies of scale—involves substantial upheaval.

Nevertheless, successful consolidation brings with it another benefit: increased size, which can give hospitals more spending power when it comes to hiring top executive talent. And if they are able to bring in the kind of leaders who can cut costs and introduce business models and technologies that increase efficiency, this will ultimately allow them to meet their overarching goals: delivering higher-quality care at a lower cost.



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*This article was written by The Economist Intelligence Unit and sponsored by Prudential. For more information call Prudential Retirement® at 800-353-2847 or visit [Healthcare.PrudentialRetirement.com](http://Healthcare.PrudentialRetirement.com).*

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