

TIPPING POINT: HOSPITAL RESILIENCE IN A PERFECT STORM

Talent management: The key to efficient, value-based care

Written by **The Economist** Intelligence Unit

Attracting and retaining talent is the most critical issue facing the U.S. hospital sector, according to an Economist Intelligence Unit (EIU) survey of more than 300 industry executives conducted for this research program. It is also a widespread problem: 74% of respondents believe their own organization needs to pay more attention to attracting and retaining the best talent. Only 3% disagree.

The demands of talent management, however, risk being obscured amid the multiple concerns of a highly challenging environment. For their own individual organizations, surveyed executives are far more likely to consider other issues besides talent to be more pressing. In particular, the shift from fee-based to value-based payments and rising healthcare costs are listed as “very” or “extremely” critical concerns at their hospitals markedly more often than the most critical personnel issue—dealing with talent shortages—let alone attracting and retaining talent itself. This ranking is consistent across the U.S.; respondents’ region, hospital size and seniority make little difference.

My industry’s problems and my own...

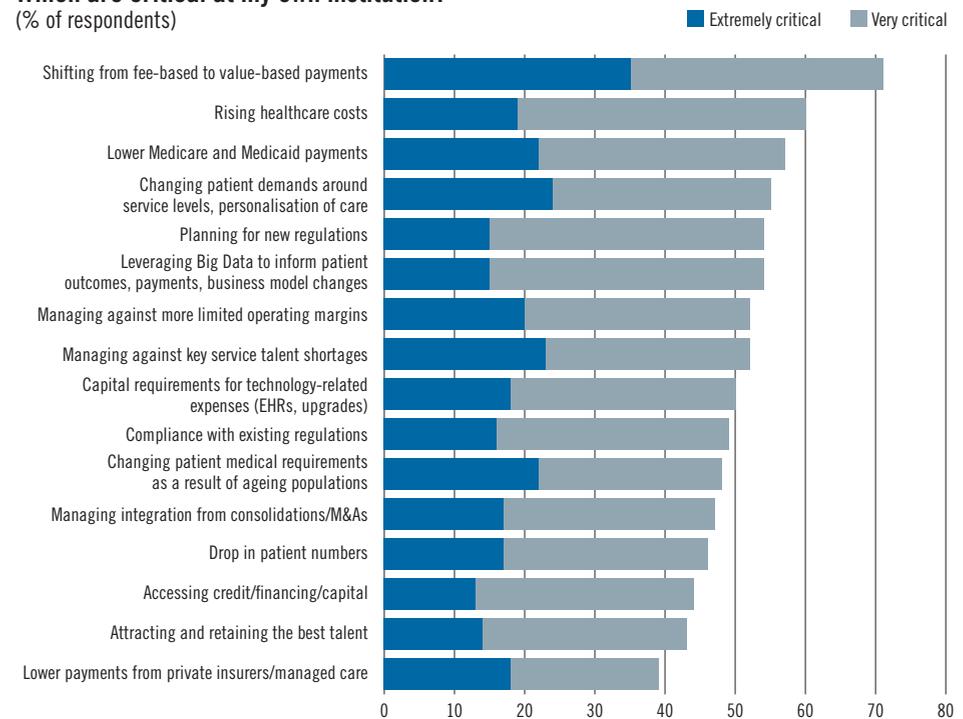
What are the most critical issues facing the hospital sector?

(% of respondents)



Which are critical at my own institution?

(% of respondents)



Source: The Economist Intelligence Unit survey, 2016

Tipping point: Hospital resilience in a perfect storm

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Yet issues of strategic change and cost control are not distinct from talent management. In hospitals they are closely intertwined. According to the *Harvard Business Review*, some two-thirds of a typical healthcare provider's costs go toward human resources.¹ Charles “Chip” Kahn, president and CEO of the Federation of American Hospitals, notes that addressing these costs in an era of tight margins is made all the harder by “tremendous pressure regarding salaries.” Meanwhile, he adds, an evolution in some fields (in particular among top physician talent) away from a traditional, largely arm’s-length relationship to one of hospital as employer has both HR and strategic implications.

Thus the need to align the management of talent—especially of leading clinicians—with other strategic priorities is critical. It is also extraordinarily difficult. James Rebitzer, Professor of Markets, Public Policy and Law at Boston University Business School, explains: “[In healthcare] I don’t think we fully know how to structure incentives to move individuals to do the right thing. We want to get physicians working on process improvement, to coordinate care better, etc., but the actual incentive structures in place tend to work against that. Getting them right is challenging.”

Three leading talent strategies and where they can undermine strategic needs

Hospitals are using three primary—sometimes overlapping—tactics to manage their best talent. These emerge clearly in the survey data:

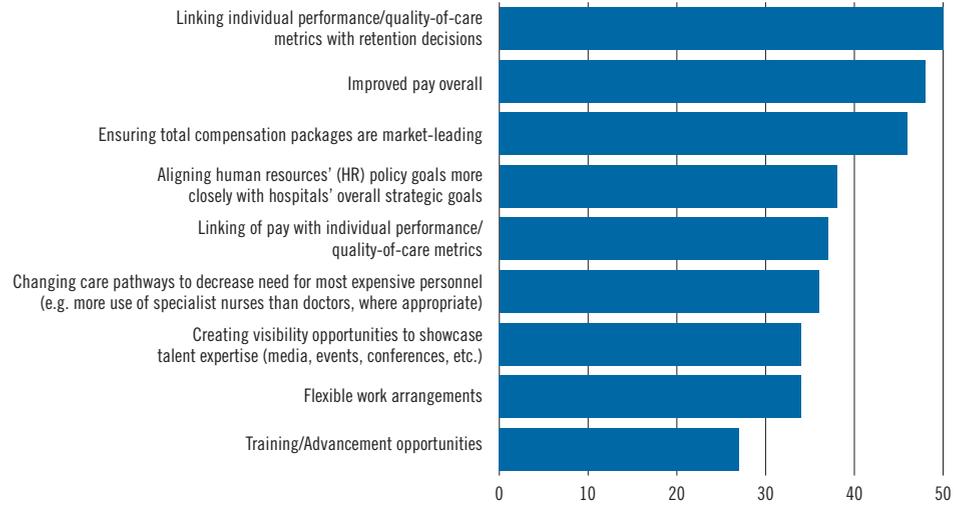
- Competitive pay and benefits;
- Using data to ensure value for money; and
- Restructuring processes to reduce the role of more-costly personnel wherever feasible.

Dr. Kip Webb, North American Healthcare Provider Portfolio Lead at Accenture, says, “We are seeing all three approaches [used by those we advise], and all three are important levers.” Nevertheless, given the other critical issues facing hospitals, each needs to be employed in a way that helps hospitals keep costs down and move toward value-based care.

Money can be a problem as well as a solution: An obvious starting point in addressing HR issues is remuneration. Unsurprisingly, the second and third most common strategies hospitals are employing to manage their best talent are improved pay (cited by 48%) and ensuring that the organization has market-leading total compensation packages (46%). More than a third of hospitals combine both strategies, while 59% use at least one.

¹ Robert Kaplan and Derek Haas, “How Not to Cut Health Care Costs,” *Harvard Business Review*, 2014.

Strategies hospitals will employ today to manage their best talent (% of respondents)



Source: The Economist Intelligence Unit survey, 2016

Even in a time of tight budgets, this makes financial sense. As Dr. Webb notes, “If someone can see lots of patients—and keep beds full—that has economic value.” The problem, he says, is that as healthcare moves increasingly from fee- to value-based payments, higher rewards for clinicians and specialists who generate a lot of service activity may not bring correspondingly more income to the hospital.

Indeed, poorly structured compensation can impede change. Professor Rebitzer cites a common, but self-defeating practice. This hospital “pays its oncologists almost entirely by patient contact, i.e. with a kind of piece rate. In some ways, that makes a lot of sense: it is simple to communicate; there is no favoritism; it is great to generate a lot of fee-based revenue. But it makes it impossible to engage clinicians in process improvements. They are socialized toward putting patients through the system.”

High pay is also, by its very nature, expensive in an era of substantial financial challenges. Nor does money on its own cure HR headaches: 21% of hospitals that use better pay and market-leading compensation as employee inducements report that retaining and managing talent is an extremely critical issue; among those that use neither tactic, the figure is just 12%. Says Lloyd Dean, CEO of Dignity Health: “You want to pay to be competitive, but if the critical play you are running is ‘I am going to pay more,’ you get a diminishing return. Pay alone is a short-lived strategy.”

Seeking value for money: Rather than simply spending on HR, hospitals want to make sure the expenditure is having the desired effect. Fifty-one percent of survey respondents say their hospitals link performance and quality-of-care metrics with retention decisions, rendering it the top talent management strategy. Similarly, 37% link pay with individual performance metrics. Overall, 70% do at least one of these.

Poorly structured compensation can impede change.

This approach is widespread because its potential value is obvious. The devil, though, is in the details. Dr. Webb says, “Not everything that counts can be counted.” Most of the healthcare metrics developed over the last decade, he adds, still focus on processes—e.g., if a test was performed and the correct action was taken given the result—rather than true patient outcomes—e.g., whether the condition was cured or complications avoided. The latter kind of data is rarely available in real time, as disease prevention is notoriously difficult to quantify. Even coming up with relevant metrics may take decades. Dr. Webb believes a data-based approach to talent management “is offputting for clinicians and rightly so. We don’t have really good outcome measures.”

Worse still, Dr. Webb adds, it can create “perverse incentives.” “I have heard of pediatricians firing the parents of patients if they choose not to immunize. If someone is being graded on percent immunized, you can see why this happens, but that is not good care.”

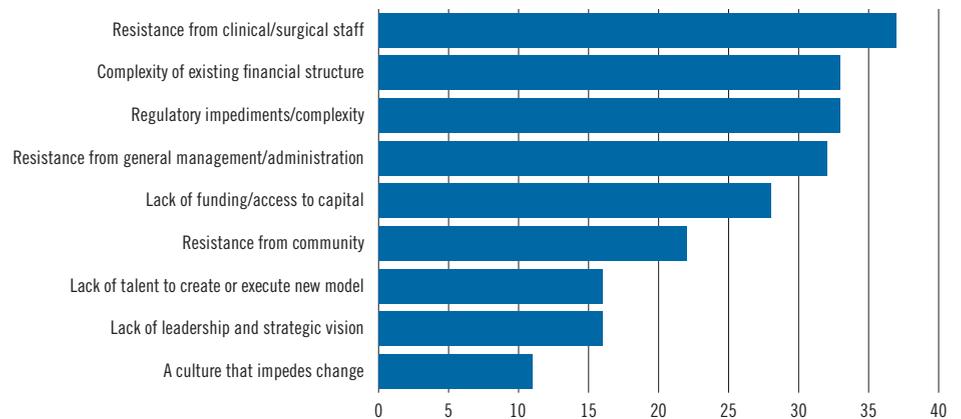
Reducing costs through process change: Another important way to address the cost of HR for U.S. hospitals is to reorganize care in a more cost-effective way. Thirty-six percent of survey respondents say their organizations are changing care pathways to make more use of lower-cost personnel. The same percentage is using technology to outsource services such as specialist consultations.

Such efficiencies may help address one of the great cost issues of U.S. healthcare—waste—says Dr. Webb. The numbers are huge, according to a variety of studies. One, by the Institute of Medicine, was typical in finding that about 30% of the U.S.’s total spend for clinical healthcare services is wasteful.²

Process change can be an attractive option, hence the current popularity of the idea that all personnel should work at “the top or their license” or do the most demanding job for which they are trained. Such significant change has the potential to arouse opposition among clinicians if imposed as a pure savings measure rather than a way to improve care. Pat Fry, former CEO of Sutter Health, says that for any major operational change in hospitals, “you have to have physician leadership.”

² Institute of Medicine, *Best Care at Lower Cost: The Path to Continuously Learning Health Care in America*, 2012, Donald Berwick and Andrew Hackbarth, “Eliminating Waste in US Health Care,” JAMA, 2012.

Top issues confronting hospitals (% of respondents)



Source: The Economist Intelligence Unit survey, 2016

Cooperation with staff is the key to making these strategies work

All three of these options can be useful in helping hospitals meet their talent management challenges. Nevertheless, each comes with risks of arousing workplace opposition or blocking changes that are just as necessary to the continued success of the hospital.

The way to square the circle is to implement these strategies in conjunction with top talent rather than imposing them on senior medical staff. Such cooperation may be feasible. A 2013 survey of physicians overall by RAND—a research organization—found that professional satisfaction was more affected by time spent treating patients and ability to provide high-quality care rather than compensation levels—which most already found acceptable.³ Leemore Dafny, Professor in Hospital and Health Services at Kellogg School of Management, believes that changes in care pathways or processes might be embraced by clinicians if they “will enable them to do the job that they are trained to do.” Similarly, metrics that demonstrably improve the quality of care are likely to be welcomed by professionals.

For Mr. Dean, this is part of a broader, more collaborative approach needed for successful hospital talent management. A key part of turning Dignity Health around from a money-losing organization to one of the largest non-profit healthcare systems in the country has been to work with employees, integrate what they want to achieve with the hospital’s goals and structure incentives to reward the change to value-based care. “The totality of these changes the environment,” he says.

³ RAND Health, *Factors Affecting Physician Professional Satisfaction and Their Implications for Patient Care, Health Systems, and Health Policy*, 2013.

“Our key to success is that our doctors buy into the vision and, because of that, we put them into leadership,”

Pat Fry, CEO, Sutter Health

Mr. Fry adds that physicians in particular should take a leading role in all substantial talent management changes—or indeed all major shifts in hospital operations. In his experience at Sutter Health—which in the last three decades has grown from two hospitals to one of the country’s largest non-profit networks—“our key to success is that our doctors buy into the vision and, because of that, we put them into leadership.”

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