

*Envisioning the
Hospital of the Future*

*Changing Times
for Physicians*

*Increasing Use of
Information Technology*

*Looking to the Future
– and to Opportunity*

Trends in Healthcare Strategy: The Year Ahead – And Beyond

By Dan Phillips, Principal, Phillips, DiPisa & Associates

One key challenge facing today's healthcare executives is finding the time for adequate strategic planning. Often, executives in our industry are so busy with the many complex operational challenges of running a healthcare institution that they end up simply reacting to changes in the industry rather than proactively planning how to address coming trends.

Caught up with the pressing problems of today, hospital executives can find it hard to allocate enough time to prepare for important changes the future may bring. I've seen many highly capable, talented healthcare CEOs face this dilemma.

As we approach the beginning of a new year, it's natural to think about long-term planning – about your organization's goals and the strategic issues it faces. With that in mind, we asked several leading healthcare management experts – Robert V. Reece of Cambridge Research Institute; Dr. Eric D. Lister of Ki Associates; and Marc Grossman of Smart Solutions for Health Care – to share with us trends they believe healthcare executives should be strategizing about – in the coming year and beyond.



Dan Phillips

Envisioning the Hospital of the Future:

Robert V. Reece, President,

Cambridge Research Institute

Cambridge Research Institute, based in

Cambridge, MA, is a management consulting firm specializing in healthcare.

The long-term trends Reece sees affecting the healthcare industry over the coming decade are many and varied. Some of them include:

- Increased demand from insurers and consumers for transparency as to the cost and quality of healthcare services provided.
- Increasing use of information technology.
- Competition for every niche.
- Changes in demand, including increased hospital utilization, but also the migration of services out of the hospital and into the ambulatory or home environment.
- Substantial changes in the physician marketplace, including shortages of physicians; increased desire among younger physicians for better work/life balance; and a trend toward larger physician practices and away from small group and solo practices.

Reece points out that it's the interaction among the various trends that can cause transformational change. For example, Reece predicts that hospitals will increasingly face competition for every service niche. In fact, he notes, one of the biggest niche competitors hospitals face is doctors themselves. Reece believes this trend toward increasing competition – in combination with the trend toward insurers and consumers wanting more transparent information about the cost and quality of services –

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Phillips DiPisa recruits leaders for healthcare and life sciences organizations along the East Coast and throughout the Midwest. This article is part of a continuing series.

will demand structural change among many community hospitals, most of whom have traditionally tried to serve every niche.

Reece believes that a generalist, “Jack-of-all-trades, master of none” approach is a poor strategy in the face of increasing competition. His reasoning? If a hospital serves a minimal number of patients in a particular specialized area, that organization will find it difficult to achieve cost efficiencies or develop staff highly skilled in that specialized area. In our age of increased competition and increased transparency, hospitals will find it difficult to remain competitive in serving that niche. “If you’re not the best in your marketplace [for a particular service], narrow your focus,” Reece advises.

Another trend, Reece observes, is the continuing migration of services and procedures out of the hospital into other settings, such as clinics, doctors’ offices or the home. One factor driving this trend is technology, since technological innovation enables certain procedures to be performed outside of the hospital. Another is an increase in the percentage of healthcare dollars spent on the treatment of chronic diseases, such as diabetes. As advancing treatment techniques and technology enable more patients to live with chronic diseases, Reece notes that the healthcare industry needs care models that revolve around managing these conditions – rather than the acute care model that hospitals currently emphasize.

What do all these converging trends mean for hospitals, particularly community hospitals? Reece emphasizes that healthcare executives must periodically step back from focusing on day-to-day issues to consider their strategy for the next seven to ten years. Ask yourself: Over the next seven to ten years, how likely is your organization to be affected by the major changes reshaping the healthcare environment? What are the strategic implications of these trends for your organization? Do you have the right strategy for the future? And, once you have an updated strategic plan in place, Reece adds, it’s important to align your annual plan and your rolling three-year operating plan with it.

Changing Times for Physicians:

Dr. Eric D. Lister, M.D.,

Principal, Ki Associates

Ki Associates is an organizational consulting firm based in Portsmouth, NH and specializing in work with healthcare organizations.

Dr. Lister anticipates significant changes for America’s physicians – and the hospitals that employ and work with them. Lister notes that this is a difficult time for physicians, who face increasing pressures in their practices. These stresses take many forms, such as decreasing compensation; increasing bureaucracy and regulation; and increasing concern about malpractice litigation. As a result, Lister observes, physicians are increasingly dissatisfied with their professions, with some retiring earlier and/or encouraging their children to avoid the profession. At the same time, an aging U.S. population means increased demand for physicians’ services. As a result, the industry faces impending physician shortages – particularly for primary care physicians.

Lister believes that doctors’ dissatisfaction may extend to the institutions with which doctors work, including hospitals. In particular, Lister points out that many doctors realize that hospitals now need them – and the referral streams they provide – more than the doctors themselves need the hospitals. Doctors, he observes, also have higher expectations of service from hospitals than in the past. Some primary care physicians now prefer to be less involved with hospitals and instead hand off patients to hospitalists. Doctors, he adds, may also increasingly compete with hospitals as they search for non-traditional revenue streams that are not dependent upon individual patient encounters.

Lister, like Reece, notes that an important change affecting hospitals’ relationships with doctors is changing attitudes among younger doctors entering the profession. According to Lister, younger doctors who are part of “Generation X” – the generation that followed the Baby Boomers – bring significantly different attitudes than older physicians.

He explains that younger physicians tend to be comfortable with the latest technology and in fact prefer it; they also tend to be more comfortable with evidence-based medicine.

But, Lister adds, there's been a substantial increase in the proportion of younger physicians who are women, and many are balancing work and home in ways that the previous generation of doctors did not. In fact, Lister notes, both male and female Generation X physicians tend to insist upon flexible schedules more than previous generations of doctors did. Also, he points out, we're witnessing a shift among younger doctors away from self-employment. While self-employment in solo or small practices was historically the dominant practice model for U.S. physicians, more than 75% of graduating seniors in medical school, whom Lister surveyed, said they wanted to be employees rather than self-employed once they finish their training.

Given the prospect of physician shortages and a new generation of doctors interested in being employees, Lister concludes that smart hospitals should think hard about creating environments where they effectively employ physicians. However, they also need to pay a lot of attention to the business aspects of such employment arrangements, Lister notes. Hospitals should avoid a repeat of what occurred in the late 1980s and early 1990s, when hospitals bought physician practices but then subsequently often found themselves without the skills or structures to assure profitability.

On the issue of competition from physicians, Lister observes that hospital executives may instinctively react angrily to the idea of doctors competing with them to provide ancillary services; however, he points out that reacting with indignation is not a good negotiating position. Instead, he suggests that hospitals consider various types of joint ventures with physicians, such as co-owning office space. In summary, Lister is convinced that hospital viability absolutely requires an understanding of practice realities for today's doctors and a creative, flexible approach to a new generation of business relationships with physicians.

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Increasing Use of Information Technology:

Marc Grossman, President, Smart Solutions for Health Care

Smart Solutions for Health Care, based in New York City, is a consulting firm that provides IT consulting, IT outsourcing and revenue cycle services to healthcare organizations.

Marc Grossman is an expert on the use of information technology by today's healthcare organizations. He points out that IT spending in healthcare is low compared to other industries, both as a percentage of revenues and on a per employee basis. But that is changing, he notes; healthcare IT spending has generally been lagging behind almost all other industries for about 20 years but is beginning to catch up, and information technology spending in healthcare is expected to experience significant growth in the next few years.

One example: as paperless electronic systems become more widespread in healthcare, Grossman observes, hospitals will need to invest in the necessary infrastructure for such systems. Hospitals will continue to purchase and implement computerized physician order entry (CPOE) systems and electronic medical record systems. However, Grossman notes that implementation of these important technologies is still in its early stages; for example, he estimates that less than one-half of one percent of U.S. hospitals have full electronic medical record systems. And, although the first CPOE system went live 35 years ago, only about 5% of U.S. hospitals use such systems today, Grossman estimates. Moreover, the marketplace for IT products and services for the healthcare industry remains volatile, Grossman explains, with IT vendors both entering and exiting the market.

Another trend affecting hospital IT use is an ongoing shift from hospital-focused to patient-focused IT systems, Grossman observes. That means a greater focus on ambulatory systems and advanced clinical systems that provide a comprehensive record of a patient's medical history (both inpatient and ambulatory, from multiple providers) and is easily accessible by authorized individuals from anywhere. And there will also be a need for healthcare institutions to collaborate more on technology standards, so that data from a patient's medical record can be accessed in a variety of settings. Grossman predicts that we will soon – probably in the coming year – see federal legislation providing incentives for increased standardization of hospital IT systems to increase interoperability.

He compares the issue to the need that railroads faced in the nineteenth century to settle on a standardized rail gauge before intercontinental rail travel could really take off as a means of transportation. As long as different railroads had different standards – and a train couldn't move from one to another – the full potential of rail travel could not be realized. An analogous situation exists with healthcare electronic medical records, he notes.

Another issue hospital executives should consider, Grossman points out, is new federal regulations that allow hospitals to subsidize the purchase of electronic medical record software systems for doctors' offices by as much as 85%; previously, such subsidies were prohibited. This change in regulation, he predicts, means that hospitals will face increased pressure from doctors to provide such subsidized systems.

Conclusion: Looking to the Future – and to Opportunity

These three experts certainly paint a daunting picture – one marked by unrelenting change – for the healthcare industry. The overall perspective that emerges from these three experts' insights is that of an industry in great flux, one that will look quite different in ten years.

However, any period of change – even unsettling change – also represents a time of opportunity. As the healthcare industry evolves, executives who position and prepare their organizations will no doubt see those organizations encounter new possibilities for success. As we approach the New Year – a traditional time of reflection and thinking ahead – I hope that this New Year will bring you increased opportunity amid change.

As a principal of Phillips DiPisa, Dan Phillips conducts executive leadership searches for the firm's healthcare clients. Before launching Phillips DiPisa, Dan held financial leadership positions at St. Elizabeth's Medical Center and Franciscan Children's Hospital, both in Boston. His strong track record of building long-term relationships demonstrates the trust clients place in him.

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