

Leading Healthcare CEOs Sound Off on the Financial Crisis

EXECUTIVE INSIGHTS FROM C-SUITE RESOURCES





**CEOs see permanent shifts in the industry;
reveal opportunities and strategies.**



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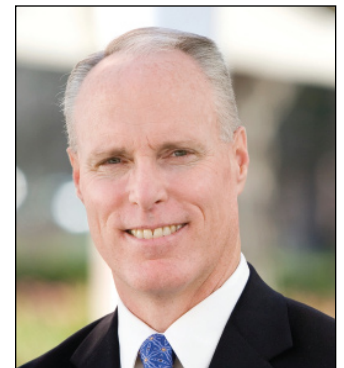
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INTRODUCTION

Among the many cherished assumptions the global financial crisis has upended is the one that says in periods of economic downturn the healthcare industry is a safe haven. We know from many recent surveys validated by our own research that today's crisis is different: capital has disappeared, bond ratings have nosedived and investment earnings have been devastated for healthcare delivery organizations. Add to the mix surging unemployment that translates to even more uninsured, a drop in elective procedures by consumers and cutbacks in Medicaid, it's plain healthcare is facing unprecedented challenges.

In keeping with its mission to tap C-Suite insight directly—to find “the truth behind the bottom line” so to speak—C-Suite Resources conducted in-depth interviews with nine top CEOs from leading healthcare delivery organizations to ascertain their responses to this country's biggest economic crisis since the Great Depression. C-Suite Resources is a new company that provides executive advisory, market intelligence and education services via dozens of prominent C-level healthcare executives (see “About C-Suite Resources” below).

Our goal is to learn if and how forward-looking CEOs can see within the financial crisis the very path beyond it—and how that path might already be shaping tomorrow's healthcare industry. In that vein, we categorized CEO responses under seven key “talking points” and enhanced with quotes from the CEOs themselves under the heading “What CEOs say.” C-Suite Resources' Chairman, Don Wegmiller, a veteran healthcare CEO himself and long-time advisor to CEOs, weighs in on each of those points with suggested guiding strategies under the rubric “C-Suite Resources advises.”

1 CRISIS EQUALS OPPORTUNITY.

That's why the Chinese symbol is the same for both. While the challenges require wise and deft management, the current crisis represents an opportunity for inspired leadership to consolidate the gains of the past decade and to create innovative models for success in the future.

WHAT CEOS SAY

"There's so much we can do," says **HENRY FORD'S NANCY SCHLICHTING**. "I've been in healthcare 30-plus years and this is the most exhilarating time of my career. One of the good things that has happened is that healthcare is now seen as part of the economic engine, and that should help everyone, including critical access hospitals."

"There are fundamental opportunities to change critical elements of healthcare now," says **YALE NEW HAVEN'S MARNA BORGSTROM**.

"I think that the stronger performing organizations will continue to have opportunities to innovate, be successful and grow," says **SHARP HEALTHCARE'S MIKE MURPHY**.

"I'm bullish on the future," says **SCRIPPS HEALTH'S CHRIS VAN GORDER**. "The sky is not falling—we have to be nimble."

"We're maintaining our building schedule to meet growth in demand for services...We are opening a new proton facility for radiation therapy, which was up 25 percent last year. We have no layoffs planned," says **UNIVERSITY OF PENNSYLVANIA'S RALPH MULLER**.

"The key is to hold on and be strong. Hospitals that survive will be much stronger," says **TRUMAN MEDICAL CENTERS' JOHN BLUFORD**, whose inner-city, "safety net" hospital is "bulging at the seams" with rising uncompensated care.

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From influencing long-awaited healthcare reform, driving standardization, enhancing physician integration, creating true supplier partnerships, to enhancing retention and recruitment, the crisis presents major opportunities for savvy CEOs.

More than ever, strong, inspired leadership is required to combine the careful management of resources with an eye toward innovative strategies as an inevitable new healthcare landscape emerges. Optimism is a key characteristic of all the CEOs we interviewed. That's why they've been successful so far and why they'll be successful coming out of the current crisis.

2 THE CRISIS WILL DRIVE REAL HEALTHCARE REFORM.

The current financial crisis signals a permanent shift to a new healthcare system built upon the quality and efficiency initiatives of the past two decades but whose ultimate promise will be realized by healthcare reform likely to be implemented by the new administration.

WHAT CEOS SAY

“If we’re ever going to do healthcare reform, now is the time. There’s a burning platform,” says **TRUMAN MEDICAL CENTERS’ JOHN BLUFORD**. Universal coverage is critical for urban hospitals like Truman Medical Center, which gets more than 40 percent of its revenue through Medicaid, as well as facilities like Cook County, Denver General and Parkland in Dallas. “If these guys close, all of a sudden the rest of the system will have to absorb those patients. This is not a Truman problem. This is a community problem.”

“This will force some form of healthcare reform under the new president in the next 24 months,” says **CHRISTUS HEALTH’S TOM ROYER, MD**. “It will change reimbursement, especially in favor of the out-patient area. The delivery system will never look the same. I am optimistic that what comes out the other end will be better than it is today. It may enhance our focus on wellness and health maintenance.”

“Healthcare reform was going to come before the crisis. Healthcare needs to be reformed. The administration wants to act quickly, but the current economic crisis may impact their desire,” says **SHARP HEALTHCARE’S MIKE MURPHY**.

“In some respects,” says **TRINITY HEALTH’S JOE SWEDISH**, “this is remarkably different than the other cyclical downturns that I have experienced seemingly every decade of my career. The difference is based on a realization that the adaptations we’re administering may translate into long-term performance that embeds these changes as permanent... This has the distinct possibility of being a permanent shift based on payment reform, information technology advancements and comparative effectiveness.”

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Healthcare executives should voice support for healthcare reform that rewards efficiency, quality and transparency, while providing support for the uninsured. Health systems must become more consumer oriented and holistic, going well beyond “sick care” in an inpatient environment. This includes wellness programs, alternative therapies, and increased care delivered outside the hospital, in a more convenient and responsive way in settings such as the home, senior center or shopping mall. Information and communication technology will continue to be a critical enabler of all of this.

3 INDUSTRY CONSOLIDATION WILL ACCELERATE.

Underperforming hospitals and clinics and those too small to shoulder the increased cost burden of today's crisis will fall by the wayside or be absorbed by large integrated health systems. While hospitals have been consolidating over the past three decades, this trend will intensify over the next 12 months, resulting in bankruptcy, mergers and acquisitions as the industry reorders itself into a flatter, less hospital-centric delivery system with more efficient community outreach.

WHAT CEOS SAY

"Yes, the financial crisis will lead to industry consolidation," says **HENRY FORD'S NANCY SCHLICHTING**. "The crisis will drive a very strong focus on fundamentals like quality and service. The smaller the entity, the higher the administrative costs proportionally."

"We'll see 1,000 to 1,200 hospitals face bankruptcy. This crisis will force a consolidation," says **CHRISTUS HEALTH'S TOM ROYER, MD**. "We need to stand on our own bottom line. Healthcare organizations will have to fund capital projects with operational dollars. We'll focus on cash generation—cash & carry versus increasing debt."

"We're opening a brand-new hospital and adding beds to another, but some programs will have to be discontinued," says **SHARP HEALTHCARE'S MIKE MURPHY**. "We'll be closing a skilled nursing facility that hasn't been profitable, but it has been an important service to the community. Current financial pressures, rent increases and maintenance costs have made it prohibitive to keep it open. Patients will now have to access these services in the general community. You'll see more of that in the industry."

"We haven't borrowed for eight years—we're very strong," says **UNIVERSITY OF PENNSYLVANIA'S RALPH MULLER**. "We won't change our strategy, especially in cancer and cardiac care, but we'll certainly focus on cost control," he says.

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An element of many healthcare reform proposals is the need for "organized systems of care." In a consolidating industry large integrated delivery systems with deep resources that cover the waterfront—hospitals, physicians, clinics, health plans and innovative consumer outreach—will not only weather the current storm but will likely become the dominant form of care delivery organization.

4 THE MOVEMENT TO STANDARDIZED, UNIFIED PLATFORMS WILL ACCELERATE.

The healthcare industry is notorious for its structural fragmentation and variability in processes and quality. Although health systems have worked hard at eliminating those systemic flaws, the economic crisis has made it clear that neither the market nor the government will allow further delay on closing what still is a considerable gap between goal and reality.

WHAT CEOS SAY

“We’re a very diverse multi-state organization with a highly integrated platform for services,” says **TRINITY HEALTH’S JOE SWEDISH**. “Our choice is to rapidly advance to an even more unified operating platform for clinical, supply chain, financial and information technology. Where we were more liberal on contract compliance and adoption of best documented practices, we’re now demanding maximum compliance and cross pollination of solutions. Any tactic necessary to eliminate variation is fair game. All our managers know our mantra is to enhance the Unified Enterprise Ministry (UEM).”

“We’ve been on a three-year journey to converting to a single information technology platform and we will continue that process,” says **CHRISTUS HEALTH’S TOM ROYER, MD**.

“We were very silo-oriented but today we’re very system-oriented,” says **SCRIPPS HEALTH’S CHRIS VAN GORDER**. “Our information technology is standardized across the enterprise to improve quality, safety and performance. We have to invest in information technology, especially with the focus on safety. I expect information technology spending will increase, rising to five percent from less than two percent in the next few years.”

C-SUITE RESOURCES ADVISES

Health systems should adopt the goal of achieving a single, unified information technology platform as the foundation for more standardized and streamlined clinical, supply chain and financial processes and applications. The platform should be interoperable and extendable both within the enterprise and beyond its walls to enable health information exchange in the community.

5 SUPPLIERS MUST BECOME TRUE PARTNERS.

What has been a vendor marketing cliché will become an imperative as the survival of both delivery organizations and suppliers requires mutual risk-sharing going forward.

WHAT CEOS SAY

“You can create the dreaded win-win,” says **YALE NEW HAVEN’S MARNA BORGSTROM**, with slight irony for a phrase that has become an industry cliché. “You can use market conditions to your advantage,” she says, adding, however, that even if you swap out one vendor for another to get a better deal, “Don’t burn bridges. Keep relationships through these hard turns of the steering wheel.”

“I’m a great believer in promoting integrated trading partners where there is shared risk and reward,” says **TRINITY HEALTH’S JOE SWEDISH**.

“Scripps has been unique—one of our doctors invented the stent,” says **SCRIPPS HEALTH’S CHRIS VAN GORDER**. “We’d like to expand that ability to partner with suppliers. For example, we’re speaking with companies that are interested in coming in here and inventing new products with us. We’re located in a hub for biotech and wireless technology. The more

the economy shifts and healthcare reform occurs, the more true partnerships come into play.”

“Innovation has got to become a priority,” says **TRUMAN MEDICAL CENTERS’ JOHN BLUFORD**. “I’m asking [potential partners] to invest major research dollars for innovation in my hospital. Just doing it better is not going to work anymore.”

“We will clearly look to clinical device, information technology and all suppliers to ensure we’re getting the best deal possible,” says **SHARP HEALTHCARE’S MIKE MURPHY**. “We use Premier GPO, and we’ve always worked aggressively with vendors.”

“Suppliers are the biggest cost after staff,” says the **UNIVERSITY OF PENNSYLVANIA’S RALPH MULLER**. “We’ll stretch out purchases like MRI and CT scanners and secure as much supply-chain savings as possible. Plus we think the market will get more competitive and shift prices down.”

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The time has never been better to revisit and renegotiate supplier contracts—and create true partnerships with suppliers that involve significant risk and reward sharing. Creative and innovative CEOs will behold a new playing field before them full of opportunity. Old friendships may change, but that doesn’t have to mean forever. Bridge-burning is not a strategy.

6 PHYSICIAN ALIGNMENT TAKES ON ADDED SIGNIFICANCE.

The intersection of the economic crisis and imminent healthcare reform favors integrated health systems. That puts a premium on physician alignment and integration strategies. Physicians, also feeling squeezed, are willing to play ball.

WHAT CEOS SAY

“There will be a much higher level of clinical integration,” says **HENRY FORD’S NANCY SCHLICHTING**. “Better integration keeps more referrals in-house and fuels growth.”

“We’re engaging doctors more,” says **PIEDMONT’S TIM STACK**. “You’re seeing a different personality in the field today, especially when docs and hospitals are more integrated—they have more skin in the game.”

YALE NEW HAVEN’S MARNA BORGSTROM says the crisis presents “an opportunity to align physi-

cian interests with the health system’s. Primary care physicians are telling us that if we can’t integrate their practice with our System, they’ll come to work as a hospitalist. For some, their overhead as independent practitioners exceeds 65 percent.”

“There’s a tremendous amount of uncertainty on how much impact the economic crisis will have on physicians. Recognizing that it’s all about trust, we’re asking, ‘What can we do together?’” says **TRINITY HEALTH’S JOE SWEDISH**.

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Physicians have never been more ready and willing to join the integrated delivery organization. Savvy healthcare CEOs will seize this moment to bind physicians and medical groups into closer relationships and integrate them with the health system on clinical, operational, financial and information technology levels.

7 THE HUMAN DIMENSION BECOMES MORE CRITICAL THAN EVER IN TERMS OF ENGAGING BOTH EMPLOYEES AND CONSUMERS.

As integral members of their communities, hospitals and health systems feel employees' and patients' pain in this time of economic turmoil. The cloud's silver lining is the opportunity to engage employees and consumers more deeply. It also alleviates some of the strain in recent years on access to key talent.

WHAT CEOS SAY

"We recognize that the economic crisis is not only affecting the workforce at work but also in their personal lives," says **CHRISTUS HEALTH'S TOM ROYER, MD.** "Associate morale is critical—it's a challenge to maintain a highly loyal and efficient workforce when the environment is so filled with gloom and doom. People are really down, so how do you maintain their energy?"

"The human dimension is very critical in this market," says **TRINITY HEALTH'S JOE SWEDISH.** "There's rampant job instability. We're very sensitive to associate engagement so they recognize we're doing everything we can to protect their jobs and wellbeing. We have to manage the business with sensitivity linked to our insights about people, process and culture."

"The last thing I want to do is lose intellectual capital," says **TRUMAN MEDICAL CENTERS' JOHN BLUFORD.** "People are our most valuable asset. If good people are laid off in the community, I'm going to gobble them up."

"This moment is changing how we listen to and engage patients and families," says **HENRY FORD'S NANCY SCHLICHTING.** "As part of our service excellence initiative we've hired a guy from the Ritz Carlton to help launch our new wellness and illness services. He's determined that women are the primary consumers of healthcare and has developed a customer-segmentation approach incorporating retail and hospitality. We're developing a huge demonstration kitchen with one of the best local chefs to show people how to cook healthy meals."

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As part of the same community cloth, employees and consumers deserve the same level of empathy during tough economic times. As the community landscape shifts so should CEO strategies to keep margin and mission in balance. Not only is empathy consistent with the mission of care but it can provide insight and vision into innovative engaging of both employees and consumers.

CONCLUSION

Finding a path through the great financial crisis of the early 21st century requires the best collective thinking healthcare has to offer. By bringing together the “collective mind” of the healthcare CEOs interviewed for this report, C-Suite Resources has provided guideposts—seven strategic “talking points”—to help the industry to at least begin to navigate this path. As these experienced, visionary leaders already know, not everything is new under the sun. However, the interplay of all seven points provides an outline for action in a global, Internet-bound era where collaborative thinking is not only a possibility, but a necessity.

ABOUT C-SUITE RESOURCES



C-Suite Resources provides insights, education and strategy support to companies serving the healthcare industry. The company’s services enable healthcare suppliers and vendors to improve their strategy, sales and marketing performance via access to powerful market intelligence from industry thought-leading executives. C-Suite Resources “Faculty-Advisors” include dozens of nationally recognized C-level—CEO, COO, CFO, CMO, CIO—executives who hold leadership positions in a variety of healthcare organizations. They have been carefully selected based on depth and mix of C-suite experience, high performance in their field, thought leadership, ability and desire to share knowledge, and leadership in industry organizations.

C-Suite Resources’ customized programs include executive panels or focus groups, advisory groups, strategy workshops, and interactive healthcare and sales education programs. C-Suite Resources was founded by prominent healthcare executives Don Wegmiller and Stan Nelson, and consultant Ralph Wakerly. For more information visit www.c-suiteresources.com or call 952-544-0325.



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