




Healthcare Market Point of View

Realizing Value

forv/s
mazars

The Evolution Began



As the healthcare industry has evolved, so has Forvis Mazars' market perspective. We introduced the concept of Risk Capability to convey our belief that it was time to move toward risk, value, and outcomes and away from the status quo of fee-for-service medicine.

Our perspective centered on 'tipping point' market criteria and the first steps associated with execution in a risk-based environment: revenue transformation, clinical enterprise maturity, and enterprise intelligence. These were distinct and challenging topics ten years ago; they remain so today.

As the market crawled toward a value-based care model, where preparing for risk capability began to influence strategy and operations, our perspective evolved as well. We introduced additional capabilities needed to succeed in a risk-based care delivery model and encouraged payors, providers, and employers to accelerate the transition to value.

Between 2013 and 2020, the market made incremental gains toward value as employers raised concerns about the rising cost of healthcare coverage, CMS and commercial payors experimented with mandatory and voluntary programs, providers developed integrated networks to participate in limited risk arrangements, and the industry wrestled with the definition of value and the metrics to measure it. Although we collectively moved the needle during this time, we did not generate the momentum necessary to achieve the flywheel effect.



The World Paused

The COVID-19 pandemic dramatically paused the market's transition to value, as the global health and economic crisis rightfully took precedence as a matter of survival. While the pandemic underscored the need for value-based care, it also exposed the challenges, impacts, and importance of addressing social determinants of health and inequities of care in underserved populations.

As we emerged from the pandemic, renewed and immediate problems took precedence:

- Expiring CARES Act funds
- Labor shortages and skyrocketing expense
- Capacity constraints and associated volume and revenue recovery
- Inflationary impact on operating expense, drugs, and medical supplies
- Disappearing margins and economic survival

The Time Has Come

The time has come to boldly return our attention to value-based care transformation. The public health emergency has expired, and the near-term challenges that accompanied our emergence from the pandemic can no longer serve as the rationale for delaying the pursuit of value. Employers and patients must take accountability and serve as change catalysts. CMS and commercial payors must alter business models, define expectations, and create meaningful economic incentives. Providers must clearly define 'value,' redefine care delivery models, develop (or expand) competencies as 'Value-Centric Organizations,' and lead the next phase of transformation and innovation.

Critical Capabilities

The Value-Centric Enterprise overcomes adversity and excels at handling day-to-day operational challenges while fully embracing a value-based model of quality care delivery and compensation. A Value-Centric Enterprise prioritizes value-based initiatives in its strategic planning and places value at the core of its strategic, operational, and financial activities.

Serving as a Value-Centric Enterprise is critical in today's post-COVID-19 marketplace. It is necessary and doable. The Healthcare Consulting Practice at Forvis Mazars has identified five organizational capabilities as critical accelerants to an organization's transformational journey to a Value-Centric Enterprise.

Capabilities are the intangible assets that drive organizations forward, combining the competencies of their people to advance an organization's mission and drive results identified during strategic planning and developed through investment, patience, and vision.



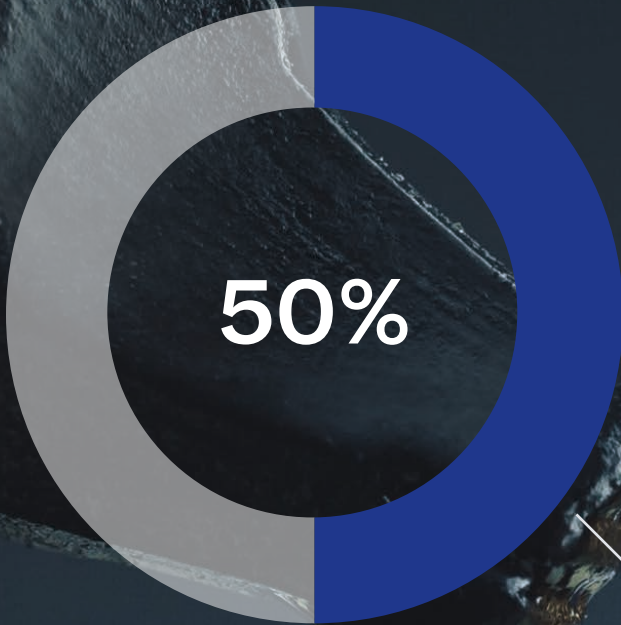
Critical Capabilities

Strategic Agility

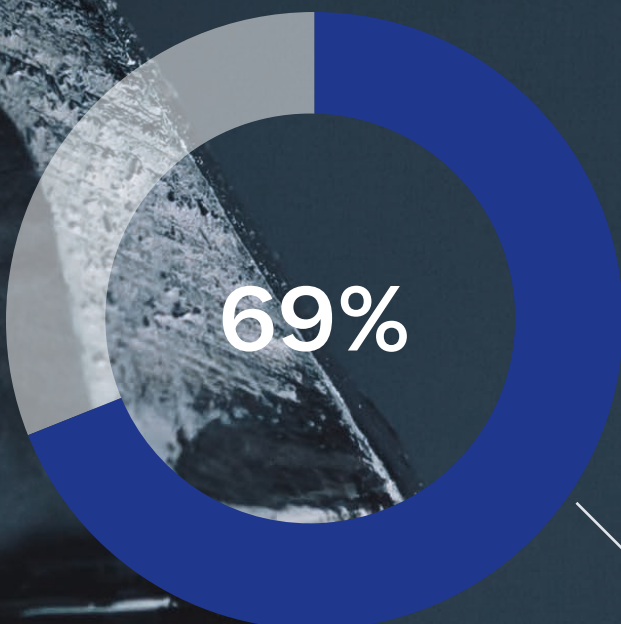
⊕ **Definition:** Calibrating strategic direction, as conditions demand

The first step in any transformation is to plan and prepare. Organizations will better position themselves for a sustainable future by establishing a transparent and prioritized focus.

Now is the time to revisit strategic plans paused during the pandemic and reignite strategy. However, it is essential to note that effective strategic planning cannot occur in a bubble. We have learned that true and lasting change happens when stakeholders at all levels of an organization are engaged in the process, from inception to completion.



50% of providers paused strategic initiatives during the pandemic¹



69% of healthcare strategists reported operating margins below pre-pandemic performance in 2022¹

Critical Capabilities

Value Centricity

⊕ **Definition:** Centering the organization on the pursuit of value

Since 2015, the Healthcare Payment Learning & Action Network (HCPLAN) has been actively working to create more two-sided risk alternative payment models in the public and private sectors.

This model holds providers accountable for the cost of services by requiring them to incur excess costs. Asking questions such as, “How do we put the patient at the center of the value curve?” and “How do we accelerate innovation?” help create accountability. We expect two-sided payment models to rise in the near term, driven by the market pressures brought on by the COVID-19 pandemic. We have seen that with this type of centricity, organizations can successfully incorporate value into their planning, operations, and finances.

89% of healthcare executives believe they need to engage in more value-based care, yet only 48% of executives believe their organizations have the capabilities to execute those value-based care strategies.²

89%

48%

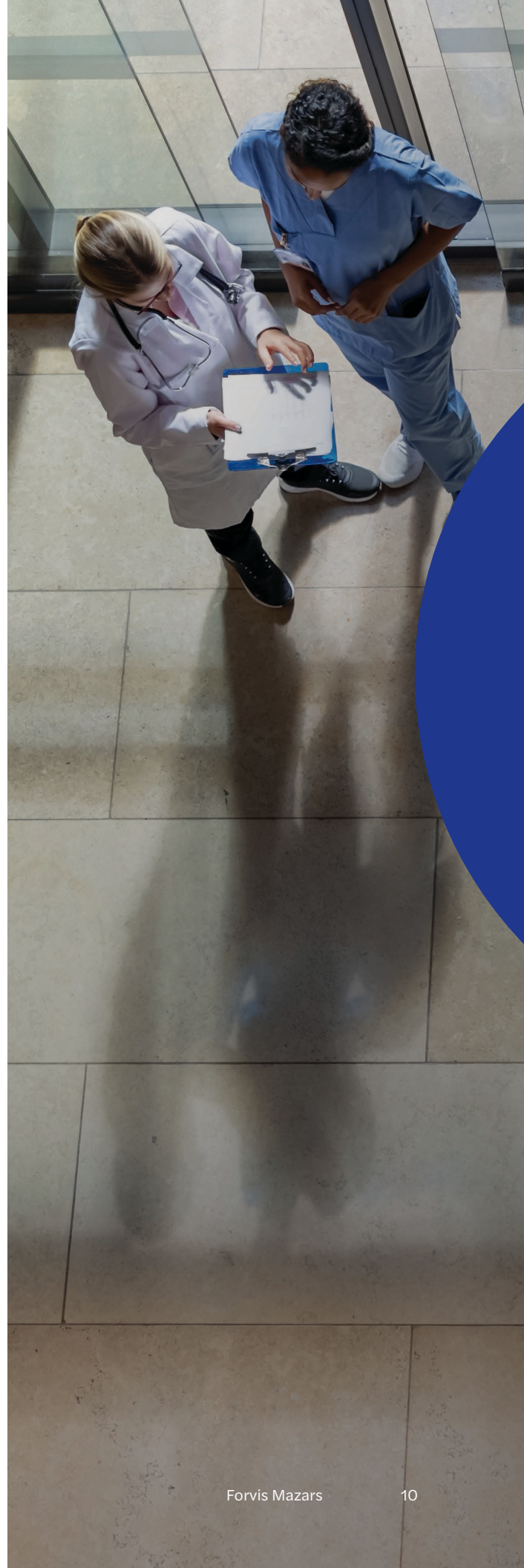
Critical Capabilities

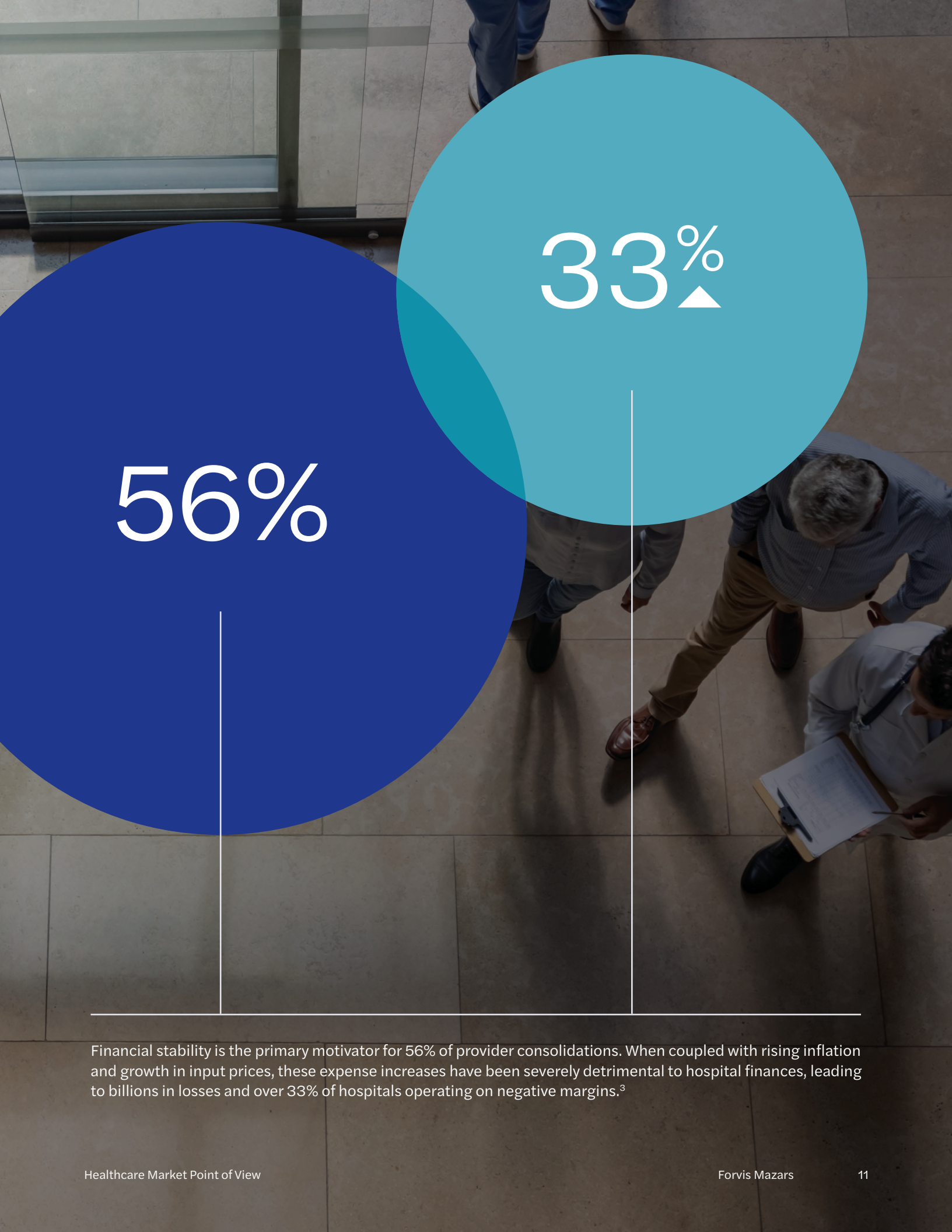
Financial Sustainability

⊕ **Definition:** Identifying and sustaining margin improvement

Healthcare organizations will continue to face difficult decisions driven by margin pressures. Health systems continue to report eroding margins over the past year with increased labor, supply, and drug expenses.

As we continue to progress through 2023, provider operating margins remain in the red. Driving a sustainable financial future requires ingenuity and perseverance as our industry looks to put healthcare organizations on solid footing—enabling continued service to our communities.





56%

33%▲

Financial stability is the primary motivator for 56% of provider consolidations. When coupled with rising inflation and growth in input prices, these expense increases have been severely detrimental to hospital finances, leading to billions in losses and over 33% of hospitals operating on negative margins.³

Critical Capabilities

Growth Fluidity

⊕ **Definition:** Exploring unique, strategic paths to sustainable growth

Driving long-term organizational performance requires dedication to mission-aligned, profitable growth. Nearly half of health system executives foresee consolidation efforts in their market service areas within the next year, demonstrating a need to accelerate growth strategies.⁴

Strategic affiliations, alliances, mergers, acquisitions, and partnerships are components of success. In creating these larger health systems, organizations will be poised to serve their populations by developing a comprehensive network of care focused on value.

With this fluidity, organizations can evaluate and mobilize growth initiatives around several key developments, including ideal systems of care, service line growth, financial affordability and sustainability, and value-based initiatives.

Case Studies



Orlando Health acquired Sabanera Health Dorado, an acute care hospital in Puerto Rico. This acquisition was a crucial step in both organizations' goal of expanding relationships within the state of Florida and maintaining a commitment to the territory of Puerto Rico. Due to the high number of patients that travel between the two communities, the acquisition will enhance the quality and continuity of care for all patients.⁵



Forvis Mazars clients Froedert and ThedaCare have come together to form a joint venture creating two health campuses in their respective cities to provide higher levels of care and medicine to the people of Wisconsin.⁶

Critical Capabilities

Change Clarity

⊕ **Definition:** Taking the guesswork out of organizational change

We are biologically wired to resist change. This response leads to frustration, exhaustion, and cynicism. From adapting to social distancing and masking to adjusting to telemedicine and hybrid work environments, the change associated with the pandemic drove unprecedented fatigue and burnout—changing the workforce forever.⁷

As the industry points to a value-centric model, where tomorrow's health system looks remarkably different than today's, accurately diagnosing change fatigue and prescribing effective remedies will be essential. To achieve change clarity, organizations will rely on a portfolio of human capital diagnostics that paint a holistic picture of the state of their workforce. With that clarity, leaders and managers will gain essential insight for a successful transition into tomorrow's health system.

“Resistance to change is the most common reason why many change initiatives fail⁸”

David Shore, Ph.D.
Harvard Professional Development

63% of CEOs say their processes and execution are too slow, creating a gap between change-driven opportunity and the ability to capitalize on it.⁹

63%

What Can't Get Lost in Transition

Essential Functions

While the industry has changed forever, and as provider organizations attempt to transform themselves into Value-Centric Enterprises, a set of essential functions will either serve as supporting catalysts for change or as a deterrent, tethering organizations to the status quo.

These essential functions support organizations' operating models and technology systems to connect strategy, structure, and accountability to move the enterprise toward its vision:



Clinical Operations

Day-to-day operational management of the functions and facilities within a healthcare enterprise.



Finance and Reimbursement

Management of the enterprises' financial resources and reimbursement strategies to fund short-term needs and long-term objectives.

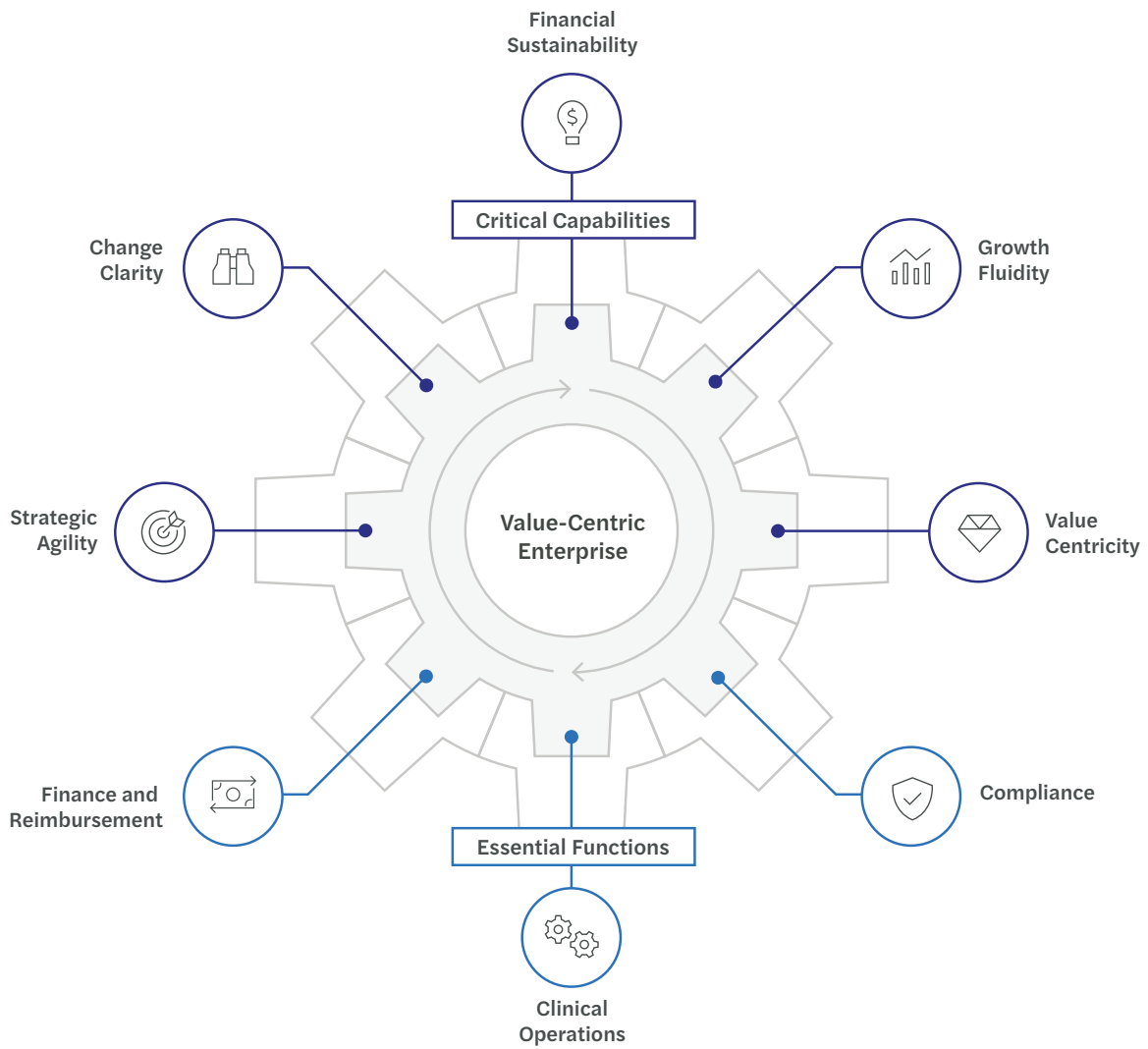


Compliance

Ongoing process of evaluating and meeting the legal, statutory, ethical, and professional standards applicable to the enterprise.

Like these other essential functions, technology's role within the provider environment is essential in every sense of the word. That's why it is imperative to maintain current technologies and optimize when opportunities align with becoming a value-centric enterprise.

As the foundation for change, these essential functions will need routine optimization to support near-term performance for the long-term journey to reach the summit as a Value-Centric Enterprise.



Realizing the Promise

Building a Value-Centric Enterprise takes conviction. Moving past post-pandemic challenges and refocusing on strategic investments will help prepare us for a successful journey and sustainable long-term future to better care for the communities we serve.

Value-Centric Enterprises see higher employee engagement scores, higher patient satisfaction, and improved care protocols—expanding their eligibility for financial assistance.

Leaders must study their market carefully to develop a clear picture of the Value-Centric Enterprise the market demands. This clear understanding, followed by investing in the defined critical capabilities while optimizing essential functions, will generate the momentum needed to power the transformation to building a Value-Centric Enterprise. Now is the time for bold action to meet the needs of our local communities, broader markets, and the industry as a whole—in the near, long, and distant future.





Sources:

- ¹ MINDSETS: Forvis Mazars Executive Leadership Survey Results, forvismazars.us, November 2021
- ² MINDSETS: Forvis Mazars Executive Leadership Survey Results, forvismazars.us, November 2021
- ³ Massive Growth in Expenses and Rising Inflation Fuel Contained Financial Challenges for America's Hospitals and Health Systems, aha.org, April 2022
- ⁴ MINDSETS: Forvis Mazars Executive Leadership Survey Results, Forvis Mazars, November 16, 2021
- ⁵ Orlando Health acquires Sabanera Health Dorado to create Doctors' Center Hospital | Orlando Health Dorado, orlandohealth.com, October 19, 2022
- ⁶ ThedaCare and Froedtert Health announce joint venture, froedtert.com, October 13, 2022
- ⁷ A Very Real Crisis – Burnout in Healthcare, forvismazars.us, September 23, 2022
- ⁸ 7 Reasons Why Change Management Strategies Fail and How to Avoid Them, professional.dce.harvard.edu/blog, November 18, 2022
- ⁹ The Great Acceleration: Can Your Business Keep Up?, blog.workday.com, June 7, 2021

© 2024 Forvis Mazars, LLP. All rights reserved.