

## Leadership for a Transforming Health Industry

*The changes under way in the U.S. healthcare system demand industry leaders who can create and transition to innovative business models while continuing to deliver quality services—while under significant cost constraints and public scrutiny. In this issue of Leadership & Talent, the Health Services Practice at Russell Reynolds Associates discusses the specific competencies and experience leaders will need in order to adapt and succeed in the evolving environment. As part of our firm's commitment to the healthcare reform dialogue, Russell Reynolds Associates has helped organize a Health Reform CEO Work Group—20 CEOs from leading healthcare providers, payers and suppliers who convene regularly to discuss healthcare reform and new, sustainable models of healthcare delivery.*

Arrival of the new decade finds U.S. healthcare policymakers tantalizingly close to the threshold of historic change. While recent debate on healthcare reform has focused on the divisive issues of insurance and funding, the greatest promise of affordability and real healthcare improvement actually is found in payment reform provisions that attract little public attention. The establishment of pilot authority would provide an invaluable framework for providers and payers to accelerate the introduction of new, more effective payment and delivery methods. Accountable Care Organizations and Medical Home concepts would offer models of integrated care toward which traditional institutions can migrate. And the Senate bill's Innovation Center in the Centers for Medicare & Medicaid Services (CMS) would promote stepwise transition to a new era of provider-payer alignment and accountability. These and other initiatives were intended to shepherd the many individual components of the current system to a future characterized by:

- A phased shift from a volume-driven, piecemeal fee-for-service system to an integrated, patient-centered approach that rewards quality and efficiency.
- Accelerated consolidation, as increasingly unsustainable small physician practices and fragmented systems transition into large multispecialty groups and truly integrated systems.

- Greater vertical and horizontal integration of care and the employment of uniform, data-based quality standards that will reduce wide regional variation in care patterns.
- Accelerated use of cutting-edge outsourcing strategies to reduce costs and improve healthcare value.
- Risk-based, “bundled” or capitated payments that incent the transformation from the distortions of fee-for-service to “fee for health” through more integrated, cost-effective care.

Clearly the pace of this inevitable change presently is unclear. However, it is certain that through use of existing law and the innovation of market-leading organizations, this new healthcare environment will be far more centralized and process-driven. As a result, success will depend as never before on the quality of its leadership.

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In response to those developments, organizations will have to be structured in different ways, and their leaders will need different competencies in order to succeed. Furthermore, the process of transition will take a



significant period of time and will require new business models, collaborative benchmarking, and coalition-building among and within organizations. Healthcare organizations, therefore, need leaders who will not only be able to lead in this consolidated model but who can help their institutions transition from here to there.

## Institutionalizing Transformational Leadership

Many forward-thinking chief executive officers and boards have begun to realign the structure of their organizations to better respond to the transformation imperative.

The strategies they are employing fall into three broad categories:

- **Creating a platform for innovative leadership.** In the search for ongoing performance improvement, healthcare organizations have established “skunk works” to build physician-driven innovative health systems free of legacy constraints, integrate cutting-edge decision-support technologies and promote more cost-effective care across the full care continuum. Forward-thinking organizations

are creating new executive roles or transitioning marketing positions into strategy roles and creating chief transformation or chief innovation officer roles as well as innovation institutes, in order to upgrade their strategic capacity to transform their businesses.

Lines of accountability and new organizational structures are being established for driving novel types of integration and partnerships.

Resources are increasingly directed to ensure that advances in telemedicine, personalized medicine and care redesign, among others, are employed to maximize public benefit.

- **Building the infrastructure for transformation.** In addition to elevating their strategic capabilities, organizations are upgrading the infrastructure demanded by the new healthcare environment. In information technology, the establishment of federal standards outlining “meaningful use” is just one impetus; there is wide agreement that reduced costs and improved

CEOs and boards have begun to realign the structure of their organizations.



care will require an increased level of data exchange and analysis. New referral dynamics and models of care, as well as better strategies for utilizing medical talent, are beginning to emerge. Increasingly, non-competitive institutions are collaborating to accelerate the refinement and exchange of best practices. Relationship management, contractual relationships and risk management functions also will become more sophisticated as the healthcare system moves toward bundled or global payments and creative risk-sharing between providers and payers.

- **Establishing a framework for empowerment.** As physicians and other healthcare providers consolidate their services, the lessons from earlier such attempts must not be forgotten: Physicians must play a key role in aligning provider segments and in setting standards and culture. Some multihospital groups have developed new models to ensure this. For example, some systems are utilizing separate subordinate units for hospitals, physicians, and subacute providers to each report to a corporate executive vice president responsible for integration. This structure gives physicians a direct “seat at the table” in strategic decision making and in the establishment of standards of care. Others are integrating clinical and hospital resources at the local level. Either model can work as long as clinicians are engaged in creating the organization and have bought into contributing to its success.

Physicians must have a “seat at the table.”

Many innovators are also working diligently in established and new medical schools to ensure next generation clinicians with the team orientation that will support coordinated core strategies.

## Identifying New Competencies for Healthcare Leadership

The task of transformation is too large for one person to execute no matter how talented he or she may be. These profound organizational changes thus demand new competencies not just from the CEO but from boards of directors and all members of the senior management

team. While many of the following abilities already are considered part of the successful executive skill set, in the coming period, they will be especially critical.

- **Providing inspiration to combat “reform fatigue” and political and fiscal uncertainty.** The healthcare industry’s capacity to support fundamental change has improved significantly since the Clinton administration’s attempt at reform in the early ’90s and the market’s experiments with capitation and gatekeeper-based managed care that followed. The backlash to those efforts and the limited capacity of providers to manage risk during that period left a natural skepticism that remains today. In order to sustain the effort required during the complex transition process, healthcare leaders will have to convince their constituencies that “it’s different this time” due to improved clinical analytic capability, evidence-based medicine standards and market transparency. (It also is hoped that payers will support the process through reimbursement policies that recognize the substantial fiscal challenges providers face during the transition period. CMS’ leadership role in this regard will be critical.)
- **Leading through uncertainty and managing in two worlds.** The process of migrating to a new healthcare system will bring with it a high level of uncertainty before new management capacities and policy and payment norms solidify. Healthcare leaders will have to drive their teams through this uncharted terrain, making adjustments in real time without losing momentum and ensuring that revenues support ongoing operations. Implementing visionary change and undergoing continual performance improvement require two different mindsets; building a culture that embraces both goals simultaneously will challenge even the best of leaders.
- **Creating new institutions and partnerships.** Consolidation of smaller physician practices into larger multispecialty groups and integration across the continuum of care will be hallmarks of the new healthcare reality. Different bundled payment models,

Healthcare leaders will have to convince their constituencies that “it’s different this time.”

the emergence of Accountable Care Organizations, Medical Homes and increased regulatory flexibility all will require top healthcare leaders to combine disparate care delivery organizations under at least a virtual roof and to form partnerships with best-in-class outsourcers to achieve the promise of better integrated, comprehensive, effective and affordable quality care. Creative outsourcing strategies will enable providers and payors to avail themselves best-in-class solutions and allow them to concentrate on their core competencies.

- **Outsourcing strategies.** Creative outsourcing strategies will enable providers and payers alike to avail themselves of best-in-class solutions and allow them to concentrate on their core competencies.
- **Managing in a matrix.** Over the last 20 years, the dominant leadership style of the healthcare CEO has been that of a traditional corporate manager.

Going forward, however, top executives likely will evolve through a wider range of career paths and will have to lead in more complex, integrated environments. The ability to do so through collaboration that is guided by highly refined metrics and decision-support tools, rather than through a traditional, hierarchical corporate model, will be essential.

- **Driving culture change.** Successful health system transformation will require a wholesale shift in mindset. The physician community and the provider

The traditional hierarchical management style must adapt to more complex, integrated environments.

verticals have worked for decades within a system of perverse incentives that encouraged the pursuit of financial success irrespective of the effects on other parties. Physicians, in particu-

lar, must transition from operating with a “lone wolf” mentality to being part of a team-based, metrics-driven system. But even if all parties accept the inevitability and value of change, navigating this path will require extraordinary leadership skills. Increasing professional acceptance of the use of collaborative guidelines and population-based methods of establishing “comparative effectiveness” standards ultimately will create the partnerships needed for a sustainable system.

## Finding and Retaining Transformational Leaders

Identifying and retaining healthcare executives with this range of competencies—in addition to traditional subject-matter excellence—is complicated by several factors.

First, the natural pool of visionary leaders who can be effective change agents in any industry is small. Second, while transformation across healthcare will not be uniform, it will be widespread, and, as a result, many institutions will be looking to draw from the same small pool of stellar candidates. Finally, a large cohort of healthcare CEOs is approaching retirement, which would lead to a talent shortage even under the status quo.

This confluence of factors means that boards and search committees must closely re-examine and adjust their recruiting processes. Those who do so most effectively will be at a competitive advantage in building their senior teams. There are six issues, in particular, boards should address:

A confluence of factors will increase the competition for CEOs.

- **Achieve clarity on strategic direction.** The pace of change and level of uncertainty in healthcare over the next 10 years will be unprecedented. When looking to hire a CEO or other senior leader, decision makers first must clearly define the place they wish their institution to occupy in the new healthcare ecology and work backward from that point to determine their leadership needs. More than ever before, boards must begin with the end goals in mind.
- **Consider the pace of evolution.** In addition to focusing on the endpoint when developing position requirements, decision makers must consider the process of getting from here to there. The ideal candidate must be able to lead at each step along the way.
- **Involve multiple constituencies.** Key constituencies, including physician leaders as well as customers and partners, need to be involved throughout the search process. This builds support for the new executive and prepares the institution for the change he or she will help orchestrate.

- **Assure consensus.** Agreement must be reached about possible necessary change in the organization's culture and mode of decision making.
- **Cast a wider net.** For much of the last two decades, there has been a separate and distinct management track that has led to the top of most healthcare companies. The competencies and experience needed to succeed in the new environment suggest that the CEO pool must continue to expand to include clinical and IT leaders who bring deep experience with these transformative tools.

#### **The CEO pool must continue to expand.**

In many settings, clinical leaders with the requisite business acumen will be particularly well-positioned to reconcile financial imperatives with clinical realities while building consensus among all parties for evidence-based best practices. In delivery systems, the best medical/IT leaders can do more than oversee the building of the technical infrastructure—they can understand at a deep level how information can be leveraged to improve both clinical decision making and business operations. Even if these leaders have not followed a traditional corporate management path through a COO role, they may well have key competencies to assume the system CEO spot and other key leadership roles.

- **Provide support through rough patches.** It is almost inevitable that controversy will be a constant companion along the transformation journey. Boards must provide not only leadership in setting direction but fortitude in supporting management as difficult changes are implemented. Management must know that its board will be steadfast in the face of predictable complaints from naysayers reacting to changes to the status quo.
- **Rethink succession planning.** Forward-thinking institutions will respond to these changes not merely by how they conduct current searches but in how they think about future leadership needs and the development of their internal human capital. New, more flexible career paths that accelerate general management experience and provide emerging

leaders with an institution-wide perspective need to be established so that functional experts more readily ascend to senior leadership roles.

## Conclusion

While the timing and specific road map to healthcare reform will vary from community to community, the general direction—toward a system that is patient centered, data driven and integrated—is clear. The transformation to that system, however, will not be monolithic but, instead, will unfold within thousands of unique healthcare settings, each according to its own timetable and strategy. The extent to which any given transformation is a success will depend largely upon the quality and characteristics of the leadership team guiding the process. Organizations that invest in the right leaders and the infrastructure to support them will be poised to capitalize upon the dramatic changes ahead and will provide their communities with improved care at a sustainable level of cost.



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**Leadership.** In today's ever-changing global business environment, success is driven by the talent, vision and leadership capabilities of senior executives.

Russell Reynolds Associates is a leading global executive search and assessment firm with more than 300 consultants based in 39 offices worldwide. Our consultants work closely with public and private organizations to identify, assess and recruit senior executives and board members to drive long-term growth and success. We value teamwork, serving our clients with a collaborative approach that spans our international network of sector and functional experts.

Our in-depth knowledge of major industries and our clients' specific business challenges, combined with our understanding of who and what make an effective leader, ensure that our clients secure the best leadership teams for the ongoing success of their businesses. For more information, please visit us at [www.russellreynolds.com](http://www.russellreynolds.com).

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