Financial Constraints and Their Impact on Leadership in Academic Medicine

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Financial Landscape

Academic medical centers (AMCs) are experiencing significant financial challenges as they navigate an increasingly competitive landscape with rising costs throughout the enterprise. AMC profit margins – which fuel the tripartite mission of research, education and patient care – have eroded for more than a decade. From 2008 to 2020, AMC operating expenses rose 123% against just 110% revenue gains. Compare this to historically balanced increases in costs and income in non-academic hospitals and health care systems (which, it must be said, face their own issues in the post-Covid era).

The pandemic hit AMCs hard. COVID-19 also impacted AMC missions in myriad ways: a shift to greater online and less hands-on learning for medical students, prompting downward pricing pressures on tuition; lost clinical revenues and diminished cash flows with immediate impacts on care provision; and interruptions and cutbacks in critical research. Despite these limitations, most academic-based providers stepped up and took on patients others would not, providing a critical safety net that helped society through the pandemic.

In our personal experience as executive search consultants in the Academic Medicine and Health Sciences Practice at WittKieffer, it also became difficult for AMCs and academic health systems to identify leaders prepared to shepherd their departments and enterprises through this rapidly evolving landscape.

There simply are not many leaders whose past experience equips them to confront today's (not to mention tomorrow's) complexities and monumental challenges.

What is the future of academic medicine post-pandemic? Inflation, rising labor costs and supply chain constraints create macroeconomic headwinds. The cancellation of the Covid public health emergency (PHE) removes much of the Medicaid and government funding that had buttressed AMCs during the pandemic. Another payer-related challenge: reimbursement is shifting toward individual and government plans to the detriment of employer-based coverage. This trend will place undue pressure upon AMCs which have a higher cost of care than non-AMC providers, and in general more barriers to access (e.g., waiting room bottlenecks). Over 30 hours of qualitative interviews with leading academic CEOs revealed the challenges AMCs face in re-imagining a future where they bring new and differentiated value to the healthcare marketplace.

Some AMCs that sought to gain market share by acquiring community-based hospitals have used significant layoffs and cost-cutting measures to meet budgets. The goal to capture more market share by improving access and patient satisfaction often supersedes the previous goal of brand recognition by enhancing the academic missions, especially advancing research discoveries. A positive example of AMC growth is at The Medical University of South Carolina. MUSC is addressing physician shortages in the state by executing

an ambitious five-year plan entitled Quantum to recruit hundreds of physicians, faculty and residents for an enterprise-wide strategic plan to propel research and education into the future. Other institutions are expanding partnerships with the private sector to fund research and clinical trials to open pathways towards commercialization of medicines and medical products. Crises such as the pandemic may actually accelerate the possibility of spinoffs that create new business opportunities and pay dividends for AMCs while not detracting from their ability to pursue their missions.

The long-term outcome for these particular initiatives are not known, but what is abundantly clear is that current times require a reimagining of leadership within academic medicine focused on engendering a much different – and prosperous – financial future. While the dire outlook for academic medicine has myriad implications, we believe the greatest concern lies in the erosion of the academic missions, closely tied to diminished research capabilities. As AMCs venture into revenue-focused clinical partnerships and expansion in markets, where does this leave instruction, education, innovative research and exploration?

Impact on Tripartite Mission

These recent financial constraints have directly impacted the academic missions at AMCs and the types of leadership needed to address these challenges. As search consultants, we have experienced firsthand the influence of reduced revenues on education, training and research.

Health care enterprise margins have historically fueled the academic missions by direct funds flow to medical schools and research areas of the partner university. Sometimes referred to as a dean's tax, this relationship and support enhanced the reputation and branding of the academic medical center by supporting clinical research, clinical trials and state-of-the-art research equipment and support. These funds would also be used to recruit leading physician-investigators with cluster hires to quickly propel a specific area to noteworthy acclaim. This in turn would attract patients and providers to an academic medical center for the best, most innovative and contemporary treatment and care. The "anchor institutional" nature of AMCs also can generate significant value for communities. According to AAMC, these institutions contribute more than $700 billion in gross domestic product, more than 3% of the national GDP.

Unfortunately, the Covid-19 pandemic severely impacted the balance sheet due to reduced elective surgery and procedures, costs related to PPE, rising inflation, supply chain constraints and the exodus of healthcare providers which resulted in, among other things, increased use of costly traveling nurses and physician shortages.

Academic medical centers provide the training environment for medical residents and fellows, as well as for health professionals across the spectrum of healthcare. As CMS limits the number of residents, academic medical centers often utilize budget margins to fund additional slots. As these margins decrease, these training opportunities decrease. Academic medical centers also provide research opportunities for students, residents and fellows across the health professions. These research experiences often ignite a passion for foundational, translational, public health, health outcomes and/or clinical research.

Academic medical centers have been the primary focus of biomedical research for decades, garnering significant research support from federal agencies including NIH, DOD, HRSA, AHRQ and private foundations. This research has resulted in major breakthroughs for improved treatments and care that span all diseases/syndromes including: aging, cancer, cardiovascular disease, mental health, neurological diseases and metabolic diseases impacting millions of patients and their families. Grant funding only covers a portion of research costs so without financial support, these discoveries, clinical trials and data dissemination which lead to improved healthcare outcomes are critically limited. Basic science and translational research will suffer.

To compensate for the above shortfalls, AMCs have placed added pressure on physicians to lean into their

clinical time to drive revenue, especially in procedure-based specialties, making it doubly difficult for them to attend to their academic and research interests which are critical for their own growth as well as the furtherance of the tripartite mission.

Causes for Optimism: Reimagining Possibilities for Financial Growth

While the fiscal picture is sometimes bleak, academic medical centers have risen to the challenge with innovation, drive and determination. Some AMCs have restructured their funds flow models to optimize medical school and faculty support. The sheer complexity of current models – the byproduct of years of piecemeal evolution – inhibits leaders' ability to ensure efficient and effective use of resources. One obvious solution is a push toward funding simplicity and transparency, which can facilitate performance-based evaluation of fund utilization and greater efficiency. AMCs are also experimenting with more team-based funds flow models to incentivize optimal use of resources.

Another solution: Reining in outsize research packages for newly recruited chairs, deans and faculty. We have witnessed that Covid-19, for all its miseries, forced the lion's share of institutions to become more conservative in budgeting for new hire packages. One best practice is to use enhanced financial forecasting which creates funding guardrails for department chairs. This entails recalibrating chair candidate expectations, as they won't be presented with recruitment packages as robust as in previous years.

As mentioned, collaborations with community health care providers have proven highly successful for AMCs who benefit from increased scale and leverage their reputations to further increase patient volume and clinical revenues. There is risk to this, however, for further margin erosion as acute care shrinks as part of the entire provider mix. In other situations, AMCs may take on new capital responsibilities that place an inordinate drag on the enterprise's finances. Progressive academic systems are taking creative approaches to partnering which create economies of scale without assuming additional financial burden. Moving in concert with community-based partners toward value-based care strategies as well as, for example, greater ambulatory and retail care and telehealth opportunities can also pay dividends.

As the pandemic has ebbed, AMCs have sought to re-scale key service lines that generate significant revenue in support of the overall mission. Competing in areas such as ambulatory surgery, outpatient urgent care and "concierge" medicine have all allowed AMCs to "grow their book of business" while helping stabilize the fiscal engine.

Likewise, savvy AMCs have ventured even farther into capitalization of intellectual property (IP) and ramping up private equity investments to seek new avenues of revenue creation. Investments in "innovation centers" are aimed at not only spurring innovation but also providing new streams of revenue. University Hospitals Ventures in Cleveland has sought to not only cultivate local ideas into real IP opportunities but has also become a source of startup funding for a myriad of companies.

Established trust from patients and communities will be pivotal in AMCs' long-range success, notes Dr. Jeffrey Balser of Vanderbilt University Medical Center: "Long admired and respected for producing new knowledge and hatching generations of clinicians while delivering state-of-the-art care and producing new treatments, it has become clear AMCs have another important product — trust in health care delivery." Balser argues that AMCs can build upon this inherent trust while also striving to leverage the trust across departments and facilities within their own organizations to serve as a foundation for future success. "The crisis conditions of Covid-19 have given AMCs a special opportunity to experience unprecedented degrees of cross-silo interdependence and performance, revealing not only the advantages of robust social capital, but also the new avenues to amplify and sustain the essential element of internal trust."

Conclusion: New and Creative Leadership, Maintaining and Furthering the Tripartite Mission

Institutions are promoting the academic missions by: leveraging technology and virtual instruction to improve education while simultaneously building virtual care

techniques and best practices into medical school curricula; integrating practical and theoretical concepts of public health into instruction to better prepare future clinicians to address community and social health and well-being; building cross-discipline partnerships to provide students with greater context for careers which are increasingly specialized.

To encourage the kind of problem-solving and "intrapreneurial" mindset that will help academic health systems course-correct and find financial success – as a precursor to a revitalized focus on the research and academic components of the tripartite mission – new leadership is needed. We believe the following practices for leadership recruitment and strategies are essential:

1. Institutions should seriously consider candidates from non-traditional backgrounds that bring commercial healthcare and non-AMC experience to provide innovative, creative ideas and partnerships to propel the enterprise into the future. This will require recalibrating search committees' expectations.

2. Efficient timelines to bring on new leaders are critical. AMCs need more urgency in filling roles that are often bogged down by very large search committees and scheduling issues. A small hiring team can more quickly evaluate candidates to bring leaders on board in weeks vs. months to years. Today's leadership candidates have choices and speed will be essential for AMCs to secure the talent they seek.

3. A corporate, nimble leadership mindset will transform the medical academy to meet the current demands and to ensure AMCs are moving forward. This may strain faculty governance passions but, without change, there may be no need for faculty.

4. Resist the internal, interim leadership placement which often results in non-action and sometimes paralysis since they are not empowered as the permanent leader. While it can be difficult for an AMC to look outside for, say, a chair of medicine, when possible an external, interim leader can provide the change leadership needed at a crucial time.

5. AMCs must continue to innovate in local or external leadership development mechanisms, to enhance the capabilities of executives within their pipelines and provide them with a greater sense of scope and vision.

The erosion of the academic medical center mission need not be a *fait accompli* for today's institutions. What is needed is leadership which sees the academic and research missions as mutually inclusive with innovative financial strategy and the long-term sustainability of the enterprise.

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