

# Executive Perspectives on Top Risks

## 2023 & 2032

## Healthcare organisations face a dynamic and uncertain risk landscape in the near and long term

by *Richard Williams*  
Global Healthcare Practice Leader, Protiviti

The level of uncertainty in today's global marketplace and the velocity of change continue to produce a multitude of potential risks that can disrupt an organisation's business model and strategy on very short notice. Unfolding events in Eastern Europe, changes in government leadership in several countries around the globe, escalating inflation, rising interest rates, ever-present cyber threats, competition for talent and specialised skill sets, continued disruptions in global supply chains, rapidly developing technologies ... these represent just a sampling of the complex web of drivers of risks that may threaten an organisation's achievement of its objectives. Uncertainty and risk are here to stay. Keeping abreast of emerging risk issues and market opportunities is critical to improving organisational resilience.

The need for robust, strategic approaches to anticipating and managing risks cannot be overemphasised. Boards of directors and executive management teams who choose to manage risks on a reactive basis are likely to be left behind those who embrace the reality that risk and return are interconnected and recognise the benefits of proactively managing risks through a strategic lens. Those leaders who understand how insights about emerging risks can be used to navigate the world of uncertainty nimbly increase their organisation's ability to pivot when the unexpected occurs. That can translate into sustainable competitive advantage.

In this 11th annual [survey](#), Protiviti and NC State University's ERM Initiative report on the top risks on the minds of global boards of directors and executives in 2023 and over the next 10 years, into 2032. Our respondent group, which includes 1,304 board members and C-suite executives from around the world, provided their perspectives about the potential impact of 38 risk issues across these three dimensions:<sup>1</sup>

- **Macroeconomic risks** likely to affect their organisation's growth opportunities
- **Strategic risks** the organisation faces that may affect the validity of its strategy for pursuing growth opportunities
- **Operational risks** that might affect key operations of the organisation in executing its strategy

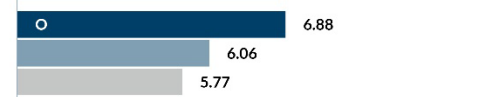
Following is commentary on the 2023 top 10 risks rated by board members and C-suite executives in the healthcare industry.

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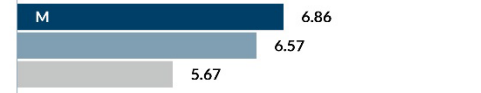
<sup>1</sup> Each respondent rated 38 individual risk issues using a 10-point scale, where a score of 1 reflects "No Impact at All" and a score of 10 reflects "Extensive Impact" to their organisation. For each of the 38 risk issues, we computed the average score reported by all respondents.

## Healthcare – 2023

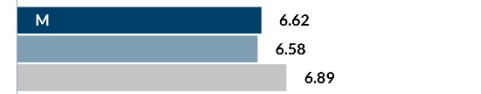
Our organisation’s succession challenges and ability to attract and retain top talent and labour amid the constraints of a tightening talent/labour market may limit our ability to achieve operational targets



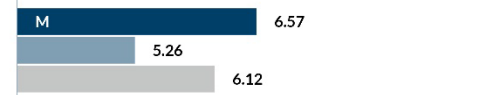
Anticipated increases in labour costs may affect our opportunity to meet profitability targets



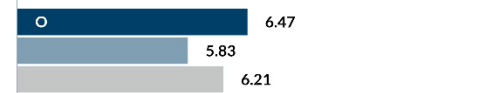
Government policies surrounding public health practices (in response to the pandemic) and stimulus to drive recovery and national resilience may significantly impact the performance of our business



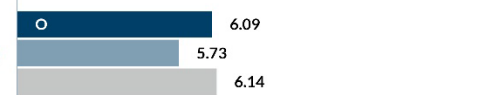
Economic conditions (including inflationary pressures) in markets we currently serve may significantly restrict growth opportunities, impact margins or require new skill sets for our organisation



Ensuring data privacy and compliance with growing identity protection expectations and regulations may require alterations demanding significant resources to restructure how we collect, store, share and use data to run our business



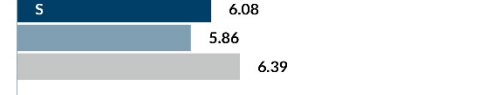
Our organisation may not be sufficiently prepared to manage cyber threats such as ransomware and other attacks that have the potential to significantly disrupt core operations and/or damage our brand



Rapid speed of disruptive innovations enabled by advanced technologies (e.g., artificial intelligence, automation in all of its forms, hyper-scalable platforms, faster data transmission, quantum computing, blockchain, digital currencies and the metaverse) and/or other market forces may outpace our organisation’s ability to compete and/or manage the risk appropriately, without making significant changes to our business model



Regulatory changes and scrutiny may heighten, noticeably affecting the way our processes are designed and our products or services are produced or delivered



Our approach to managing ongoing demands on or expectations of a significant portion of our workforce to “work remotely” or increased expectations for a transformed, collaborative hybrid work environment may negatively impact our ability to retain talent as well as the effectiveness and efficiency of how we operate our business



The adoption of digital technologies (e.g., artificial intelligence, automation in all of its forms, natural language processing, visual recognition software, virtual reality simulations) in the marketplace and in our organisation may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill our existing employees



Changes in the overall work environment including shifts to hybrid work environments, expansion of digital labour, changes in the nature of work and who does that work, and M&A activities may lead to challenges to sustaining our organisation’s culture and business model



M Macroeconomic Risk Issue

S Strategic Risk Issue

O Operational Risk Issue

2023

2022

2021

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*“Healthcare organisations continue to face a wide range of challenges, driven not only by the continued effects of the global pandemic but also by long-term concerns in the business landscape related to people, talent and culture, ongoing regulatory compliance, and the still present and growing threat of cyber- and ransomware-related attacks. The rapid rise and speed of technological innovations and disruptive technologies also can threaten already-overwhelmed healthcare organisations, which aren’t always looking to innovate long term. This wide array of concerns will continue to challenge healthcare industry leaders in the coming year and for the next decade as they strive to delivery quality patient care and drive innovation while increasing profitability and operating sustainably.”*

**Richard Williams, Global Healthcare Practice Leader, Protiviti**

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## Commentary – Healthcare Industry Group

Board members and C-suite executives in the healthcare industry see a challenging risk landscape over the next 12 months. Not surprisingly, the results of this year’s survey indicate concerns related to workforce, business performance, compliance and privacy, security and cybersecurity, and digital and innovation over the coming year, which denotes a continued dynamic business environment for healthcare organisations.

Looking out longer-term into 2032, many of these risks remain top-of-mind. In addition, similar to the survey’s overall global results, there are significantly greater concerns over the next decade about the adoption of digital technologies requiring new, difficult-to-find skills, as well as the rapid speed of disruptive innovations enabled by advanced technologies and their potential to outpace the organisation’s ability to compete or manage this risk appropriately.

### **People, talent and the future of work represent a defining business challenge for the next decade.**

Workforce challenges, including succession challenges, a tightening talent/labour market, increases in labour costs and increased expectations for a hybrid or remote work environment, are among the top concerns for healthcare executives globally.

Succession challenges and the ability to attract and retain top talent amid the constraint of a tightening labour market are pervasive issues that have impacted the healthcare industry for many years, but the worldwide public health emergency (PHE) brought on by COVID-19 has materially exacerbated the risk for healthcare organisation leaders. Survey respondents also view this risk as a long-term concern and likely to continue, as it was ranked the fifth-highest risk for 2032.

#### **Workforce-related risks for 2023**

- #1 - Organisation’s succession challenges and ability to attract and retain top talent in a tightening talent market may limit ability to achieve operational targets
- #2 - Anticipated increases in labour costs may affect ability to meet profitability targets
- #9 - Approach to managing demands on or expectations of a significant portion of workforce to work remotely or as part of a hybrid work environment
- #10 - Changes in the overall work environment may lead to challenges in sustaining culture and the conduct of the business

Throughout the industry, the largest staffing concern and resulting pain point over the last few years has been clinical staff retention. In just one example, U.S. hospitals are experiencing a record 17% vacancy rate for nurses, up 7.1 points from 2021,<sup>2</sup> according to the 2022 Nursing Solutions, Inc. (NSI) *National Health Care Retention & RN Staffing Report*. In the past five years, the average U.S. hospital turned over 95% of its registered nurse (RN) workforce and is estimated to have lost approximately \$7 million in 2021 due to turnover alone.<sup>3</sup> This increased turnover is a result of burnout, competition, retiring baby boomers and consolidation. This troubling trend does not impact just the bottom line – it also can diminish the accessibility and quality of patient care.

Similar staffing challenges are found around the world. The World Health Organisation (WHO) reports that as many as 9 out of 10 nurses in Europe have declared an intention to leave their jobs. Meanwhile, 40% of medical doctors are near retirement age in one-third of European and central Asian countries, which continue to face substantial gaps as aging and burnout are contributing to the increasing shortage of healthcare workers.<sup>4</sup> While the WHO projects a decline in the estimated global health workforce shortage to 10 million in 2030, compared with a 15 million workforce shortage the WHO projected for 2020, the International Council of Nurses notes that the pandemic is driving up demand for nurses, particularly in destination countries, and will drive increased outflow of nurses from low- and middle-income countries.<sup>5</sup>

Innovative strategies are needed to change the course of this trend and meet current and future staffing demand through different approaches to recruit, hire, train, retain, support and transform the workforce. Strategies should be developed and adopted across a variety of areas, including a healthy work environment; diversity, equity, and inclusion (DEI); behavioral and mental health needs; work schedule flexibility; stress injury continuum; innovative care delivery models; and total compensation.<sup>6</sup> The industry must continue to identify opportunities to focus on preparedness and protect both the quality of care and the bottom line.

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For the second consecutive year, anticipated increases in labour costs and their impact on the opportunity to meet profitability targets is also a top concern of global healthcare executives. Since the onset of the pandemic, staffing models implemented as short-term solutions leveraged significant use of overtime and temporary staffing, both of which are extremely expensive. Rising labour costs, including the largest U.S. cost of living increase since 1981 (8.7%),<sup>7</sup> supply chain cost increases, and relatively inelastic reimbursement continue to create downward pressure on operating margins – and disappointment for many healthcare provider executives trying to achieve profitability targets. Labour costs already account for a sizeable portion of most healthcare organisations' operating expenses – about 40-60%, depending on the organisation's size and complexity. Unlike other

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<sup>2</sup> 2022 NSI National Health Care Retention & RN Staffing Report, NSI Nursing Solutions, Inc., March 2022: [www.nsinursingsolutions.com/Documents/Library/NSI\\_National\\_Health\\_Care\\_Retention\\_Report.pdf](http://www.nsinursingsolutions.com/Documents/Library/NSI_National_Health_Care_Retention_Report.pdf).

<sup>3</sup> Ibid.

<sup>4</sup> "Ticking timebomb: Without immediate action, health and care workforce gaps in the European Region could spell disaster," World Health Organisation, September 14, 2022: [www.who.int/europe/news/item/14-09-2022-ticking-timebomb--without-immediate-action--health-and-care-workforce-gaps-in-the-european-region-could-spell-disaster](http://www.who.int/europe/news/item/14-09-2022-ticking-timebomb--without-immediate-action--health-and-care-workforce-gaps-in-the-european-region-could-spell-disaster).

<sup>5</sup> ICN Report, 75th World Health Assembly, July 2022: <https://indd.adobe.com/view/11a5cd21-9e3a-4525-a069-8f24b43b67fd>.

<sup>6</sup> Nurse Staffing Think Tank: Priority Topics and Recommendations, Partners for Nurse Staffing Think Tank, 2022: [www.nursingworld.org/~49940b/globalassets/practiceandpolicy/nurse-staffing/nurse-staffing-think-tank-recommendation.pdf](http://www.nursingworld.org/~49940b/globalassets/practiceandpolicy/nurse-staffing/nurse-staffing-think-tank-recommendation.pdf).

<sup>7</sup> Cost-of-Living Adjustments, Social Security Administration website, accessed January 2023: [www.ssa.gov/oact/cola/colaseries.html](http://www.ssa.gov/oact/cola/colaseries.html).

industries, which have utilised advances in technology and process optimisation to reduce the cost of labour as a percentage of expense, the administration and delivery of healthcare is still very much a labour-intensive service.

In addition to the economic drivers for wage increases, macroeconomic factors driving increases in anticipated labour costs include inflation, shortages of clinical and non-clinical workers, and continued fierce competition for healthcare workers with in-demand skills. Issues such as burnout, decreased job satisfaction and the aging of the workforce are also negatively impacting the supply of clinical staff. Given the lead time required for expanding class sizes of nursing programs and the current shortage of nursing instructors, the supply of nurses is unlikely to grow meaningfully in the short term.

Compounding the impact of traditional labour costs (i.e., wages, benefits and payroll tax), many employers in the healthcare industry are now offering expanded benefits, including tuition reimbursement, flexible work options, and a variety of caregiver benefits.<sup>8</sup> Many providers are also offering access to behavioral and mental health services along with modified or new employee assistance programs. Although these are strong tools for recruitment and retention, they all result in increased labour cost.

The fixed-reimbursement payment models that most provider organisations have with government and private payers creates limited opportunity for healthcare organisations to recover their increasing labour costs, at least in the short term. Some organisations are monitoring staffing data that could support an add-on to payment rates due to the uncontrollable nature of this cost and the resulting unsustainable operating margins. Consideration should also be given to tracking and analysing service areas with the largest increases for prioritisation of potential focused optimisation activity.

Adding to the challenges around a decreased talent pool and increased labour costs, healthcare organisations also are managing ongoing demands for a transformed, collaborative hybrid work environment and demands or expectations of a significant portion of the workforce to “work remotely” – both of which may negatively affect the organisation’s ability to retain talent and could impact the effectiveness and efficiency of how the organisation operates its business. The pandemic has forced companies to rethink their overall work environments to accommodate employees’ needs and safety, while also considering the impacts to the organisation.

The post-pandemic business environment requires strategic management of employee expectations in order to hire and retain top talent. Artificial intelligence (AI) and emerging technologies will potentially transform the way business is conducted over the next decade, as firms continue to look to technology tools to collaborate remotely in a hybrid environment. Transforming and adapting to these changes, as well as reexamining the organisation’s philosophy regarding remote work, will influence all aspects of business. Some of the key areas that healthcare organisations should consider when evaluating their organisation’s approach to hybrid work include workplace flexibility, travel compensation, meaningfulness of work, support for health and wellness, career development and advancement, work expectations and community inclusiveness.

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Given that backdrop, organisations are painfully aware that in order to achieve future business growth, they must adapt their talent acquisition strategies to appeal to thoughtful candidates and to secure their employment efficiently. Not surprisingly, after COVID-19 resulted in the adoption of work-from-home practices on a large scale,

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<sup>8</sup> “Hospitals are boosting benefits to attract talent, Aon report shows,” Emilie Shumway, HR Dive, September 27, 2022: [www.hrdiver.com/news/hospitals-boosting-benefits/632795/](http://www.hrdiver.com/news/hospitals-boosting-benefits/632795/).

flexibility has become a key differentiator for candidates assessing potential employers. In particular, employees with children or long commutes – or both – have grown accustomed to working remotely (or at satellite locations) and are reluctant to return to more rigid routines, as illustrated in recent studies conducted by Robert Half, Protiviti's parent company.<sup>9</sup> This presents organisations with a demand for accommodative schedules, such as allowing employees to work remotely (for at least part of the week) and synchronising work and school hours.

While fears of productivity loss in the remote work environment were widespread during the pandemic, 94% of employers reported that worker productivity either stayed at the same levels or improved.<sup>10</sup> Remote capabilities and options are a major determining factor for both non-clinical and clinical healthcare workers. For the clinical workforce, the increase in telehealth capabilities has created further flexibility for providers to manage priorities in both the work and home environments.

Healthcare organisations should anticipate continued labour shortages and hiring difficulties for the near future. As companies navigate this challenging environment, it is important they remember that, compared to previous generations, many younger job candidates place as much importance on an organisation's mission, values and culture as on salary. By emphasising brand and reputation and delivering a positive recruitment experience to candidates, organisations can put themselves in a stronger position when competing for workers.

These overall changes in the work environment, from the labour shortage and increasing labour costs to the shift in talent's expectations, expansion of digital labour and merger and acquisition (M&A) activities, are forcing healthcare organisations to examine potential challenges to sustaining their culture and business model.

The pandemic has introduced new ways of working and is requiring organisations to have a new change management strategy to address the challenge of trying to balance workers' desires to work remotely with sustaining the organisation's traditional culture and business model. The value organisations place on their people has a direct correlation to employees' commitment, confidence and engagement. Enhancing culture and building programs to reinforce these values, whether in-person or virtually, is critical to driving retention and improved business performance.

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With the continued focus on M&A activity in the healthcare industry over the last few years, high-performing organisations are placing greater emphasis on more meaningful integrations and transitions. These activities, which transform disparate organisations into a single cohesive organisation, include evaluating opportunities to realise organisational objectives and communicating the organisation's vision as retention strategies intended to maintain key talent while preventing the erosion of employee commitment. Change management is paramount and should be a top consideration before any deal is closed.

Whether a healthcare organisation is experiencing organic change or change brought about through M&A, effective communication, training and learning to adopt new ways of working are key strategies for organisational success. Effective change management strategies include revisiting work practices as organisations move to

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<sup>9</sup> "Half Of Workers Would Rather Quit Than Return To The Office Full Time, Robert Half Research Shows," Robert Half, March 22, 2022: <https://press.roberthalf.com/2022-03-22-Half-Of-Workers-Would-Rather-Quit-Than-Return-To-The-Office-Full-Time,-Robert-Half-Research-Shows>.

<sup>10</sup> Ibid.

digital platforms and identifying where an in-person presence is not required. Organisations are evaluating roles from a value delivery perspective and reimagining them with remote, hybrid and onsite possibilities. Greater emphasis is placed on employee health and inspiration, as organisations design transparent oversight programs to gauge productivity via metrics that do not erode trust or result in employees feeling micromanaged. Successful oversight programs often include frequent check-ins and result in higher levels of employee engagement.<sup>11</sup>

Finally, talent shortages are leading healthcare organisations to look internally and leverage the potential of their workforce by upskilling and reskilling their employees to work across various roles,<sup>12</sup> revitalising their staff to support operations while improving their employees' career paths. This allows talented workers with previously limited growth opportunities to reposition themselves and enables the organisation to retain valued team members who have already proven their worth, increasing retention while also meeting business goals.

## **Healthcare organisations are undeniably impacted by government policies and economic conditions, particularly those surrounding the pandemic, and are concerned about how these may impact business performance, influence margins and restrict growth opportunities.**

According to the World Health Organisation (WHO), adequately addressing the shrinking labour force will be a significant policy concern for health authorities and governments around the world in the coming years. The most common cause of disruptions to health services in a majority of the WHO member states will be a lack of available health workers.<sup>13</sup> This is reflective of the view of continuing global governmental influence on access, provisioning and payment of healthcare services.

### **Business performance-related risks for 2023**

#3 - Pandemic-related government policies and regulation impact business performance

#4 - Economic conditions, including inflationary pressures, may restrict growth opportunities

In the United States, \$154 billion of the Department of Health and Human Services (DHHS) COVID-19 awards had been issued as of November 2022 associated with the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020; the Families First Coronavirus Response Act; the Coronavirus Aid, Relief, and Economic Security (CARES) Act; the Paycheck Protection Program and Healthcare Enhancement Act (PPHCEA); the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA – Division M, Title III); and the American Rescue Plan Act of 2021.<sup>14</sup> There are numerous requirements associated with these awards to which recipients, including healthcare organisations, need be attentive.

While the risk of “government policies surrounding the pandemic and stimulus to drive recovery” has fallen from the top spot it occupied in our survey over the previous two years, the residual effects of the COVID-19 Public Health Emergency continue to pose meaningful challenges for healthcare organisations. On January 11, 2023,

<sup>11</sup> “Monitoring remote workers: the good, the bad and the ugly,” Henry Kurkowski, Forbes, December 8, 2021: [www.forbes.com/sites/forbesagencycouncil/2021/12/08/monitoring-remote-workers-the-good-the-bad-and-the-ugly/?sh=41b90b921da8](http://www.forbes.com/sites/forbesagencycouncil/2021/12/08/monitoring-remote-workers-the-good-the-bad-and-the-ugly/?sh=41b90b921da8).

<sup>12</sup> “How to upskill and reskill staff to stay competitive,” Robert Half, March 30, 2022: [www.roberthalf.com/blog/management-tips/how-to-upskill-and-reskill-staff-to-stay-competitive](http://www.roberthalf.com/blog/management-tips/how-to-upskill-and-reskill-staff-to-stay-competitive).

<sup>13</sup> “Ticking timebomb: Without immediate action, health and care workforce gaps in the European Region could spell disaster,” World Health Organisation, September 14, 2022: [www.who.int/europe/news/item/14-09-2022-ticking-timebomb--without-immediate-action--health-and-care-workforce-gaps-in-the-european-region-could-spell-disaster](http://www.who.int/europe/news/item/14-09-2022-ticking-timebomb--without-immediate-action--health-and-care-workforce-gaps-in-the-european-region-could-spell-disaster).

<sup>14</sup> HHS Provider Relief Fund, HHS TAGGS: <https://taggs.hhs.gov/Coronavirus/Providers>.

Xavier Becerra, U.S. secretary of health and human services, extended the U.S. PHE.<sup>15</sup> The likelihood of further extensions is unknown.

As a result of the PHE extension, a wide range of regulation relief continues to be in force in the U.S., including waivers enacted under section 1135 of the Social Security Act.<sup>16</sup> These waivers were designed to reduce administrative burdens and better support clinician and patient needs, specifically in the areas of Conditions of Participation (CoP), provider state licensures, the Emergency Medical Treatment & Labor Act (EMTALA), physician referrals, telehealth services, and the Health Insurance Portability and Accountability Act (HIPAA), among others.<sup>17</sup>

There are other expanded and new governmental policies and CMS guidance that are focus areas for regulators and will impact healthcare organisations. These includes the No Surprises Act,<sup>18</sup> price transparency,<sup>19</sup> health equity,<sup>20</sup> and the 340B Drug Pricing Program.<sup>21</sup> Additionally, the CMS SAFER Guides require Medicare Promoting Interoperability Program participants to attest to security, safety and interoperability measures.<sup>22</sup> A key challenge for healthcare organisations will be responding to these new policy areas as well as preparing to operate in a post-PHE environment in which the 1135 waivers will no longer apply.

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Government policy will continue to have a large influence on the U.S. healthcare industry, particularly when there is opportunity to promote access to high quality care for all citizens. Areas of continued governmental policy debate include the purchasing of healthcare, the provisioning of healthcare, access to care for vulnerable populations, and healthcare workforce development. This will more than likely include new legislation, regulatory requirements and enforcement efforts.

Financial performance is also a top concern of healthcare provider leadership, as margins of many healthcare organisations greatly decreased due in large part to the pandemic and PHE. Moreover, margins have remained thin during the transitions towards the end of the PHE and due to other drivers, including shifts to value-based reimbursement models, transitioning care to other sites of service, shifts in market share due to acquisitions and consolidation, and the overall growing costs of care delivery and operations due to inflation and labour shortages.

For provider organisations in the U.S., funding that was provided to maintain operations has run short, ending in 2022, and the financial burden of delivering care into 2023 will further hinder their financial success. U.S. hospital

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<sup>15</sup> "Renewal of Determination That a Public Health Emergency Exists," U.S. Department of Health & Human Services, Administration for Strategic Preparation & Response: <https://aspr.hhs.gov/legal/PHE/Pages/covid19-11Jan23.aspx>.

<sup>16</sup> "Waiver or Modification of Requirements Under Section 1135 of the Social Security Act," U.S. Department of Health & Human Services, Administration for Strategic Preparation & Response: <https://aspr.hhs.gov/legal/1135-Waivers/Pages/default.aspx>.

<sup>17</sup> "Waiver or Modification of Requirements Under Section 1135 of the Social Security Act," U.S. Department of Health & Human Services, Public Health Emergency, March 13, 2020: [www.phe.gov/emergency/news/healthactions/section1135/Pages/covid19-13March20.aspx](http://www.phe.gov/emergency/news/healthactions/section1135/Pages/covid19-13March20.aspx).

<sup>18</sup> Ending Surprise Medical Bills, Centers for Medicare and Medicaid Services: [www.cms.gov/nosurprises](http://www.cms.gov/nosurprises).

<sup>19</sup> Hospital Price Transparency, Centers for Medicare and Medicaid Services: [www.cms.gov/hospital-price-transparency](http://www.cms.gov/hospital-price-transparency).

<sup>20</sup> Health equity, Centers for Medicare and Medicaid Services: [www.cms.gov/pillar/health-equity](http://www.cms.gov/pillar/health-equity).

<sup>21</sup> 340B Drug Pricing Program, Health Resources & Services Administration: [www.hrsa.gov/opa](http://www.hrsa.gov/opa).

<sup>22</sup> 2022 Medicare Promoting Interoperability Program Requirements, Centers for Medicare and Medicaid Services: [www.cms.gov/regulations-guidance/promoting-interoperability/2022-medicare-promoting-interoperability-program-requirements](http://www.cms.gov/regulations-guidance/promoting-interoperability/2022-medicare-promoting-interoperability-program-requirements).



and health system operating margins continue to remain negative at -0.5% as of October 2022,<sup>23</sup> with margins projecting to decrease from somewhere between 37% to 133% of pre-pandemic levels.<sup>24</sup> The mix of volumes, revenue and expenses continues to trend along with these negative margins. The rebound in volumes and revenue is not enough to cover rising costs. While some volumes and revenue are trending upwards, unfortunately the case mix is diminished and the expenses are outpacing the increases in revenue related to business and clinical operations. The outlook for 2023 does not show much improvement as expenses are projected to continue to be greatly elevated over pre-pandemic levels for both labour and non-labour costs.<sup>25</sup>

As we've seen more of an endemic scenario evolve, physician practices continue to trend towards improved volumes and productivity. Despite the rebound in volumes, the disparity between rising expenses and revenue continue to drive higher rates of investment and funding in the physician space as pre-pandemic levels have not fully returned. Physician practices in the U.S. continue to operate with negative margins as staffing costs increased to greater than 65% of spend. Non-labour operating expenses continued to increase as well, with drug supplies and information technology taking the lead in non-labour spend.<sup>26, 27</sup>

Many health plans continue to see strong margins, but they could realise negative impacts from inflation and recessionary pressures. Key considerations include lower employer group enrollment than expected, an increase in utilisation costs sparked by fear of layoffs and/or worsening chronic conditions as a result of delayed or skipped care during the COVID-19 pandemic, slower initial public offerings (IPOs) and investment activity, escalated tension on provider contracting, and further exposure of disparities in member health equity.

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*Many health plans continue to see strong margins, but they could realise negative impacts from inflation and recessionary pressures.*

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In most countries around the world, there is no additional government support in sight. Thus, healthcare organisations are seeking solutions to decrease operational costs and improve revenues, as their pre-pandemic strategies may no longer be sufficient. Lower operating margins hinder the ability of leadership to further invest in their strategy for growth, implement process efficiencies through the use of technology, and align their organisation toward value-based care reimbursement models and population health management.

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<sup>23</sup> National Hospital Flash Report, KaufmanHall, November 2022: [www.kaufmanhall.com/sites/default/files/2022-11/KH-NHFR\\_2022-11.pdf](http://www.kaufmanhall.com/sites/default/files/2022-11/KH-NHFR_2022-11.pdf).

<sup>24</sup> The Current State of Hospital Finances: Fall 2022 Update, KaufmanHall: [www.kaufmanhall.com/sites/default/files/2022-09/KH-Hospital\\_Finances\\_Report-Fall2022.pdf](http://www.kaufmanhall.com/sites/default/files/2022-09/KH-Hospital_Finances_Report-Fall2022.pdf)

<sup>25</sup> Ibid.

<sup>26</sup> Physician Flash Report, KaufmanHall, October 2022: [www.kaufmanhall.com/sites/default/files/2022-11/KH-PFR\\_2022-10.pdf](http://www.kaufmanhall.com/sites/default/files/2022-11/KH-PFR_2022-10.pdf)

<sup>27</sup> "Striking the right balance in budgeting medical practice support staff salaries for 2023," MGMA, August 17, 2022: [www.mgma.com/data/data-stories/striking-the-right-balance-in-budgeting-medical-pr](http://www.mgma.com/data/data-stories/striking-the-right-balance-in-budgeting-medical-pr).

## Regulatory compliance and readiness around patient protection and data privacy, as well as fraud, waste and abuse oversight/enforcement, are causing healthcare organisations to rethink and restructure processes and resource use.

The healthcare industry continues to operate in a tumultuous environment as it emerges from the pandemic. Rampant mergers and acquisitions are forcing many organisations to combine provider and payer functions under one corporation in the hope to expand their patient and customer delivery capabilities. This creates an extremely complex regulatory compliance environment, as

data that is collected is used for different purposes across organisational business lines and units. These newly created complex organisations share network connections, forming a much different risk profile and larger footprint for attack. Varying levels of controls and maturity across the breadth of the organisational landscape, including numerous vendors and third parties that provide services and their own connections, can allow attackers to target and infiltrate trusted environments, further elevating the risk for impermissible uses and disclosures of sensitive information. Survey respondents view this risk as a long-term concern and likely to continue, as it was ranked the top highest risk for 2032.

### Compliance- and privacy-related risks for 2023

#5 - Ensuring privacy and compliance with growing identity protection expectations may require significant resources

#8 - Regulatory changes and regulatory scrutiny may heighten, noticeably affecting how products or services will be produced or delivered

In the hope of leveraging comprehensive data sets to gain intelligence across their healthcare organisation, the trend for organisations to collect as much data as possible from numerous disparate systems and then store that data in data lakes and data warehouses continues. Specific examples of gained intelligence could pertain to holistic patient needs, creating individualised patient care plans, optimising business decisions, etc. What too often is unclear is how healthcare organisations manage access to these vast data stores, including how activity within them is monitored and whether parameters for acceptable use of the data and associated information are created. For some organisations, many of these questions regarding implementation of appropriate guardrails for adhering to identity protection standards to safeguard and protect patient privacy have yet to be answered. As healthcare organisations expand and collect more data from patients and members, data privacy compliance will continue to be a risk area that requires ongoing monitoring in order to keep up with the ever-changing data privacy laws and regulations and understanding how they apply to the current and planned future state of operations.

As healthcare organisations navigate to the “new normal,” the regulatory environment will only add complexity to an already strained system disrupted by the pandemic. Given the economic and staffing challenges ahead, price transparency is just the beginning for healthcare organisations, which are now required to publicly disclose charges and rates for certain healthcare services. The goal, of course, is to raise awareness of healthcare costs, and many are predicting that it will lower the overall cost of healthcare in the years to come. Emerging regulatory changes focus on patient protection, such as the No Surprises Act, aimed at protecting patients from surprise or hidden bills, and the Consolidated Appropriations Act, which established provider directory accuracy standards and insurance ID card requirements. Price transparency enforcement has already started, and this is a topic that is top of mind for everyone, especially now that insurers and plans must comply as well.

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*As healthcare organisations navigate to the “new normal,” the regulatory environment will only add complexity to an already strained system disrupted by the pandemic.*

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Healthcare organisations should expect even more attention to and stronger enforcement around drug diversion, drug pricing and abuse of opioid prescribing. It is no secret that the pandemic exacerbated the opioid crisis. This past summer, for the first time, we saw a health system fined for not properly overseeing the opioid prescribing practices of its employees and not having proper controls to prevent improper prescribing.<sup>28</sup> Historically, enforcement action was taken against the prescriber(s), but healthcare systems should be on heightened alert of their responsibilities in this area. Further, for those organisations taking part in the federal 340B Drug Pricing Program, expect guidance for resubmitting claims for reduced payments back to 2018 along with increased scrutiny of modifiers from the Health Resources Services Administration, given the recent Supreme Court ruling rejecting 340B payment cuts to hospitals.

Fraud, waste and abuse (FWA) concerns continue to take center stage as the U.S. government continues to utilise collaborative government agency task forces, invest in artificial intelligence (AI) and machine learning, and tout a historic number of law enforcement takedowns in areas such as COVID-19 fraud, genetic testing and telefraud. A renewed focus on both program and payment integrity issues will be at the forefront in 2023, with the Centers for Medicare and Medicaid Services (CMS) and the DHHS Office of Inspector General (OIG) sharpening their focus on the recovery of overpayments. The accuracy of claims submission, the integrity of risk adjustment data submissions, and the identification of payment policy vulnerabilities will be important areas for healthcare organisations to prioritise. CMS continues to empower their program integrity contractors, including the recent addition of an Affordable Care Act (ACA) Marketplace Program Integrity Contractor, to support investigative FWA activities within the Marketplace.

With the projected increase in enforcement and rise in the number of Corporate Integrity Agreements, self-auditing and regulatory readiness will be paramount. Healthcare organisations that use innovative approaches around digitalisation, analytics, AI and automation for compliance operations will be ahead of the game. As noted in an article by the Society of Corporate Compliance and Ethics, “Compliance programs traditionally focus on being effective, but to achieve the status and recognition they deserve, they must evolve to the role of strategic partner. Think more broadly about the enterprise—compliance programs that are proactive, provide the business with predictive insights, and are aligned with the organisation’s long-term strategic plan are well-positioned to grow their reputation as a valued adviser and partner.”<sup>29</sup>

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<sup>28</sup> “Boulder Health System, Physician Assistant, and Nurse Practitioner Agree to Resolve Investigation into Improper Prescribing of Opioids,” Press Release, U.S. Department of Justice, May 10, 2022: [www.justice.gov/usao-co/pr/boulder-health-system-physician-assistant-and-nurse-practitioner-agree-resolve](http://www.justice.gov/usao-co/pr/boulder-health-system-physician-assistant-and-nurse-practitioner-agree-resolve).

<sup>29</sup> “Measuring the strategic value of a compliance program,” JDSupra, August 2022: [www.jdsupra.com/legalnews/measuring-the-strategic-value-of-a-6626152/](http://www.jdsupra.com/legalnews/measuring-the-strategic-value-of-a-6626152/).

## Cyberthreats such as ransomware and other attacks continue to be a top concern for healthcare industry leaders, particularly due to their potential to disrupt core operations and damage the organisation's brand.

Cyber events are key disrupters across healthcare organisations of all sizes, and the number of threats and associated attack techniques continues to expand. Healthcare organisations are often targeted by attackers, as they know the environments are overly complex, the amount of sensitive (and thus valuable) data is vast, and the overall maturity of security controls and programs tends to be lower compared to other industries. This makes healthcare organisations ripe for attacks and extortion.

### Cybersecurity-related risks for 2023

#5 - Ensuring privacy and compliance with growing identity protection expectations may require significant resources

#6 - Our organisation may not be sufficiently prepared to manage cyber threats

These cyber events can lead to, and have led to, extended outages of critical systems and infrastructure that healthcare organisations rely on to provide the right level of care and patient support. They also can lead to significant revenue loss. In response to an event, many organisations will defer or cancel elective and non-critical procedures as a patient safety precaution, which has an impact on direct revenue and potential future revenue, as the organisation's reputation may also take a hit.

The expansion of the use of cloud-based services, including the use of vendor-hosted and managed software-as-a-service (SaaS) technologies, has not lessened the security burden of healthcare organisations. Rather, it has changed how these risks need to be assessed, monitored and controlled. While this approach may transfer the requirement of control performance onto a vendor, the associated risks cannot be transferred. If the SaaS or cloud solution becomes compromised, the healthcare organisation that engaged the vendor will still be impacted, possibly severely. The associated disruption that may occur, the reputational impact and the lost revenue ultimately will land on the healthcare organisation to mitigate and remediate the best it can.

Large financial investments have been made in many healthcare organisations for years, and yet the industry still needs to continue to invest even more into their security programs. This can be a hard truth to come to terms with amid financially difficult years, but security programs need to continually reassess and mature to keep up with the evolving threat landscape. Further, healthcare organisations need to understand and accept that security is everyone's responsibility, not just that of the chief information security officer (CISO), the security team or the information technology (IT) team. Security needs to be considered in every business transaction, every merger, every joint venture, every purchase, every vendor relationship, every contract, and every employee and non-employee that gains access to the data environment.

Combine these cyber threats with a continuing expansion of the amount of data being collected from patients and members, and the industry has a risk area that many healthcare organisations know will continue to require ongoing investment, improvement and monitoring. These factors are largely why this risk continues to be in the top risks every year, knowing that the threat itself will continue to evolve.

## Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces may require significant efforts by organisations to reskill/upskill employees, outpacing their ability to compete.

While the healthcare industry has not yet experienced a true disruptive movement like those seen in more consumer-driven industries such as retail, digital products and intelligent technologies will continue to play an increasing role and help change the way we think about and deliver healthcare. These innovation struggles will be felt by both payers and providers alike, as both segments monitor how these disruptions may impact them and how

they can effectively capitalise on these efforts. Organisations beginning to embrace disruptive technologies will be better prepared to differentiate themselves in the coming years, while those that sit back and watch may be caught on the outside looking in once this disruption becomes a reality. This risk around the rapid speed of disruptive innovations jumps to number three in 2032. As we have seen from Uber's disruption of the transportation industry and Airbnb's disruption of the hospitality industry, the stalwarts of the older way of doing things may stick around, but their revenues and market share will be quickly impacted and growth will be limited as new customers choose to engage with the digital-enabled services more often than not.

The "born digital" companies of today are much more adept than their predecessors at influencing their consumers' behaviors by predicting their interests and using those insights to generate revenue. Emerging and intelligent technologies such as AI, machine learning, robotic process automation, natural language processing, quantum computing and visual recognition software continue to take root and provide a glimpse into how the healthcare industry can be transformed through innovation. These technologies are being incorporated into strategic planning with the aim to better leverage and manage the vast amount of data maintained by healthcare organisations. Once that goal is better accomplished, these data elements will be used by disruptive organisations to drive health, influence actions and capitalise on outcomes, rather than waiting passively for a consumer to decide they may need more care, schedule the care, show up for care and incur significantly greater costs for the care.

But healthcare as an industry has traditionally been slow to truly embrace change. While a variety of factors are in play, including ever-tightening financial constraints, one of the key reasons for this delay is becoming increasingly apparent – the healthcare industry lacks adequately skilled personnel dedicated to applying these technologies and innovating meaningful change across the industry. Specialised skills, foresight and knowledge are required to develop, deploy and use these technologies to solve very distinct problems within healthcare operations and to understand how to enhance revenues or margins while continually improving patient care.

Another factor in the industry's slow adoption of these technologies is the high level of sensitivity and attention required when considering their application, as many use cases can have direct patient safety implications.

To innovate successfully, healthcare organisations need to attract, develop and retain top talent with the applicable skillsets. Alternatively, or in parallel, organisations may explore partnerships that allow them to leverage these skillsets to their fullest potential. It is no secret that individuals with these skills are already scarce and in high demand, as the competition for their services increases within healthcare – and indeed across all industries. Organisations that want to maximise the potential of technological innovation will need partners who

### Digital innovation- and transformation-related risks for 2023

#7 - Rapid speed of disruptive innovations enabled by new and emerging technologies and/or other market forces may outpace ability to compete

#10 - Adoption of digital technologies may require new skills in short supply, requiring significant efforts to reskill/upskill employees

can evaluate which technological solutions best align with the company's strategies and have the existing IT talent to deploy those solutions with high effectiveness and minimal disruption.

Healthcare organisations are already plagued by outdated legacy infrastructure that needs to be enhanced, which becomes exponentially more pressing if the goal is the adoption of these intelligent technologies. The future of healthcare is digital, and the need for digital skills will only continue to increase. This is likely why the risk jumps to number two on the list of 2032 risks. Overcoming this risk will require a focus on continuing to adapt and evolve along the way as new risks related to these initiatives continue to emerge that have yet to be faced.

## Healthcare – 2032

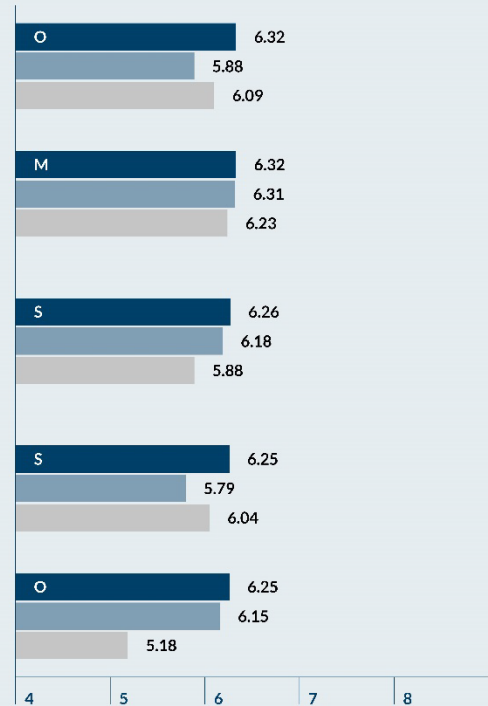
Ensuring data privacy and compliance with growing identity protection expectations and regulations may require alterations demanding significant resources to restructure how we collect, store, share and use data to run our business

The adoption of digital technologies (e.g., artificial intelligence, automation in all of its forms, natural language processing, visual recognition software, virtual reality simulations) in the marketplace and in our organisation may require new skills that either are in short supply in the market for talent or require significant efforts to upskill and reskill our existing employees

Rapid speed of disruptive innovations enabled by advanced technologies (e.g., artificial intelligence, automation in all of its forms, hyper-scalable platforms, faster data transmission, quantum computing, blockchain, digital currencies and the metaverse) and/or other market forces may outpace our organisation's ability to compete and/or manage the risk appropriately, without making significant changes to our business model

Ease of entrance of new competitors into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share

Our organisation's succession challenges and ability to attract and retain top talent and labour amid the constraints of a tightening talent/labour market may limit our ability to achieve operational targets



M Macroeconomic Risk Issue    S Strategic Risk Issue    O Operational Risk Issue    ■ 2032    ■ 2031    ■ 2030

## In closing

Without question, board members and C-suite leaders in healthcare organisations face an ever-changing risk landscape that includes challenges related to people, talent, culture, margin, performance, compliance, privacy, cyber and ransomware threats, and the rapid rise of disruptive innovations and digital emerging technologies. This should prompt leaders to scrutinise closely the approaches they use to keep an anticipatory eye on emerging risks. The need for greater transparency about the nature and magnitude of risks undertaken in executing an organisation's strategy continues to be high as expectations of key stakeholders regarding strategic relevance, risk management and risk oversight remain strong.

## About the Executive Perspectives on Top Risks Survey

We surveyed 1,304 board members and executives across a number of industries and from around the globe, asking them to assess the impact of 38 unique risks on their organisation over the next 12 months and over the next decade. Our survey was conducted online in September and October 2022 to capture perspectives on the minds of executives as they peered into 2023 and 10 years out.

Respondents rated the impact of each risk on their organisation using a 10-point scale, where 1 reflects "No Impact at All" and 10 reflects "Extensive Impact." For each of the 38 risks, we computed the average score reported by all respondents and rank-ordered the risks from highest to lowest impact.

Read our *Executive Perspectives on Top Risks Survey for 2023 and 2032* executive summary and full report at [www.protiviti.com/toprisks](http://www.protiviti.com/toprisks) or on the [NC State ERM Initiative website](#).

## Contact

### Richard Williams

Managing Director, Global Healthcare Practice Leader  
[richard.williams@protiviti.com](mailto:richard.williams@protiviti.com)

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