

Life Sciences MONITOR

A review of global leadership issues
and industry trends

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TALENT FOR THE HEALTHCARE TECHNOLOGY WAVE

Though healthcare technologies for electronic billing, prescribing, medical records, clinical decision support, patient care and commercial promotion aren't new, their adoption in the overall administration of healthcare has, until recently, been slow. But government support of healthcare technologies to reduce costs and improve patient care has revitalized interest in these technologies and changed the outlook of the industry.

For the companies that provide these solutions, it is a time of great opportunity and challenge. Accustomed to operating on a much smaller scale, many of these organizations now need an influx of senior leadership talent to help steer their rapid growth — and are struggling to find these leaders given the finite existing talent pool in the emerging sector. We recently spoke with several leaders of companies at the vanguard of healthcare technology to learn their views on the industry's transformation and its implications for leadership.

A changing landscape

Healthcare IT providers have always faced a considerable challenge in trying to automate a field that remains very paper-oriented compared to virtually any other industry. Athenahealth, a leading provider of medical billing, practice management and electronic health record (EHR) services, deals with the difficulties of an industry caught between paper records and automation firsthand. "We've got the best programmers in healthcare, but we also receive 30,000 pounds of paper every month that we scan and type in for clients because a lot of the data that we need to complete the picture for doctors isn't available online," said Jonathan Bush, athenahealth's CEO, president and chairman.

But the tide is beginning to turn, and organizations are increasingly embracing healthcare technology, spurred in part by the HITECH Act's incentives for EHR adoption and approaching Medicare penalties for nondeployment. "By and large, the desired impact is taking place in that people are investing relatively more in healthcare IT than they were three years ago," said Andrew Eckert, today the CEO of CRC Health Corporation and the former CEO, president and director of Eclipsys Corporation, a leading EHR provider that merged with Allscripts in 2010.

"Traditionally, the big health systems have spent maybe 1½ to 2½ percent of revenues on IT," said Eckert. "You could argue that the healthcare industry is as information-intensive or more than the banking industry, where they spend more like 5 to 7 percent of revenues on IT. There's been a long-term IT underinvestment in healthcare, and now the industry is starting to catch up."

Leaders agree that advances in healthcare technology can play a critical role in improving patient outcomes and reducing costs in a healthcare environment where both results are needed. According to the World Health Organization, the United States in 2006 ranked first in healthcare spending per capita but only 39th for infant mortality, 43rd for adult female mortality, 42nd for adult male mortality, and 36th for life expectancy.

"We have to improve access to a level of care that's not always readily available to patients today," said Rob Kill, president and CEO of Virtual Radiologic (vRad). "It's all about improving quality by expanding access and delivering

care in the most cost-effective manner. We have to enhance care collaboration because we have a very fragmented system today that leads to increased costs and mediocre quality compared to other nations."

While this kind of care collaboration can be seen in certain niches of healthcare, the nation has yet to achieve effective electronic exchange of full patient information between providers at any level. "We have a national e-prescribing network that connects pharmacies, physicians and pharmacy benefits networks, and it includes about 300,000 physicians," said Harry Totonis, the president and CEO of Surescripts, the nation's leading e-prescription network provider. "To drive lower healthcare costs, we need to achieve similar success in every area of the healthcare system to move electronic messages and health records across organizational boundaries."

The challenge of adoption

While high adoption of healthcare technology already exists in larger institutions that possess the budgets for IT infrastructure and support, small physician groups have been more hesitant. "Practices of one or two doctors are afraid to adopt because of price, security and efficiency concerns," said Rose Crane, CEO of Epocrates, a leading provider of mobile medical and drug reference software. "They've all heard complaints from their colleagues regarding the time and effort involved in adopting an EHR system, so many of them are reluctant to move forward quickly. Until the small docs adopt it, we'll never get the outcome we want."

Getting physicians to purchase the technology is just the first step to successful adoption,

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— Dave Engert, former president and CEO
of Nighthawk Radiology Services

however. It is also a considerable challenge to get time-strapped doctors to learn and embrace technology after doing things the same way for decades, a problem further complicated by the fact that EHR systems are sometimes rushed to market without the full feature functionality doctors require.

“The minute that technology or information systems don’t provide everything the customer needs, you’re off the system and back in the manual world,” said Dave Engert, the former president and CEO of Nighthawk Radiology Services, which was recently acquired by vRad. “When only some of the information is automated, the part that isn’t automated is processed manually, and often the results are incorrect and there’s no tie between the two. Instead of solving half the problem, it exacerbates the problem and the results. Healthcare is a history-intensive industry, and once the information is wrong, it is wrong in the history forever!”

And even large health systems with the resources to implement and support traditional EHR systems struggle with trying to integrate them with the niche electronic systems that address various areas of care but that don’t quite fit together because of a lack of agreed-upon standards.

“I don’t believe that the government should take over healthcare and try to run it because I think

they’ll do it less effectively and more costly than the private sector,” said Engert. “What they can do is mandate appropriate standards that are fair to all constituents, but then they’ve got to be specific in defining them and minimize the variations. It’s like the old adage, ‘Standards are great; pick one.’ Once standards are decided and the playing field is leveled, the private sector can implement solutions to the requirement — and they can do it better than the government.”

An emphasis on EHR

At the same time, the government mandates that have been issued have had some unintended effects in prioritizing EHR adoption over other important technologies. Eckert notes that Eclipsys was, in 2008, readying for a significant increase in billing system sales. “Many of these systems in hospitals today are 10 or even 20 years old and have become patched-together Frankenstein deployments as regulations have changed over time,” he said. “But the stimulus came into effect and the wave of billing system replacements got back-seated.”

According to Kill of vRad, “If you are a healthcare provider today, you are dealing with capital issues. And you have to determine where you are going to spend that money most effectively. And I think you have to expend it against EHRs because it’s so critical to how you will get reimbursed in the future.”

“... it can sometimes be helpful to go outside the industry for people with a sense of urgency and the ability to look at the world differently.”

— Harry Totonis, president and CEO of Surescripts

As a result, while many companies that provide other technologies are still achieving rapid growth because of their products' appeal in enhancing care and cost-effectiveness, they are also expanding their offerings into the EHR space to benefit from the new incentives and forge a deeper relationship with customers.

“We have 300,000 doctors in one- and two-doctor offices using our drug reference technology, and we're stretching our brand equity with those customers into EHR,” said Crane of Epocrates. “Our sweet spot is mobile technology, and with the advent of iPads and tablets, most physicians are hoping not to be tethered to a computer when they interact with patients.”

Meanwhile, at Surescripts, Totonis has shifted the organization from an e-prescribing company to one addressing a variety of clinical messages. “It's completely reinventing the company, and we had to do it to make ourselves relevant to future customers.”

Searching for leaders

As their businesses grow rapidly, these organizations are confronting the fact that there simply isn't sufficient leadership talent in their nascent sector to meet their talent requirements. “People ask me what our biggest challenge is over the next five years,” said Kill. “It's finding the talent

that can scale with the growth of this business in a market that's moving very quickly.”

As a result, leaders are targeting executives from other industries in roles where domain experience is not as important. “When I needed a COO, I didn't need his healthcare talent,” said Crane. “I needed someone who understood software as a service and enterprise systems — a great technologist with leadership skills. Across my team, I've built a mix of people with experience spanning healthcare and technology, so they can teach each other.”

Given the industry's complex regulations and processes, leaders find it important to get executives with industry experience for legal, sales, marketing and development roles. But in other areas, they feel that outsiders can bring an invigorating perspective to their organization.

“Because this industry has been the last to change in certain ways, it has bred a rule that things don't change that fast,” said Totonis. “So it can sometimes be helpful to go outside the industry for people with a sense of urgency and the ability to look at the world differently.”

Outsiders with experience in growing a business can also be an asset. “I think it's important to find people who have had success in other industries with service-oriented products,” said Eckert. “My experience is that while it will take them a year to pick up on the lexicon and buying

trends and subtleties of the market, those who have been through this transition elsewhere can serve the healthcare industry well.”

Because of the entrepreneurial spirit of many of these healthcare IT organizations, their leaders are often proponents of frequent job rotation within their organizations. “Thirty percent of our employees step into a new job every year,” said Bush. “Some of our best people have had 10 jobs. I don’t care if they know hockey. I want to know what their reaction time is and how much they love to get hit, and we’ll figure out the hockey part. It takes more ramp-up time that way, but it also creates a more nimble workforce.”

And in a rapidly changing industry, staying ahead of emerging trends is on every healthcare IT leader’s mind. “I have a whole team focused on innovation and how do we learn, acquire, adopt, partner and create alliances,” said Totonis. “Because you don’t want to wake up one morning and realize that something has occurred that you’re not a part of.”

The future of healthcare IT

In the coming years, leaders expect technology to have a massive impact in reducing healthcare costs and improving outcomes. They anticipate that cloud-based solutions will continue to gain traction as a way to lower the cost of technology implementation, and that the power of mobile technologies will untether physicians from their desktops for more personal and effective patient care.

“Almost all physicians have a cell phone, and iPad use is growing,” said Crane. “I see the technology that doctors hold in their hands as

the center of the universe in healthcare. If the government is ready to impose disincentives, I believe we could have upwards of 60 to 70 percent penetration by 2015. And once adoption is high on electronic health records, it changes most every piece of the equation in terms of better outcomes for the insurer, for the pharma company, for the physician, and, most importantly, for the patient.”

Telemedicine, already being used in radiology, is also likely to proliferate in the coming years. “It allows you to expand access and improve quality with more efficiency,” said Kill. “And I think you’re going to see it expand to other areas down the road, whether it’s telepathology or teledermatology, as a tool to improve quality and reduce cost.”

It also offers the potential to improve the patient experience dramatically in some instances. “How many times have you been in an emergency room waiting for hours to actually see a doctor? Telemedicine extends the ability for any care delivery system to quickly access highly qualified physicians so the patient doesn’t have to suffer the ramifications of not being able to access the right physician at the right time,” said Engert.

Over the longer term, leaders believe that healthcare will continue to be enhanced by disruptive technologies, some of which do not yet exist. “I think the puck is going right past us and into healthcare delivery,” said Bush, who expects to see a delivery company develop its own web app that aggregates the cost of procedures. “They’ll go into employers and say, ‘If you’re self-insured and someone needs a hip, if you come to me I’ll do it for this price, which is

half of what your accumulated claims would be. And here are my outcomes, which you won't even know if your traditional provider runs you through the mill.”

As the healthcare IT market matures, it will develop a greater pool of established industry leadership talent, just as other healthcare sectors have. And, just like other sectors, the number of companies in the space will likely decrease over time. “This will be just like pharma,” said Crane. “It will consolidate. There are now 200 EHR products out there, and there won't be that many in two years.”

Those companies that survive and thrive will likely be those that are making the biggest impact in improving healthcare. “I think that the industry is gravitating slowly toward results,” said Bush. “And if you can't show that your results are good for society, you're not going to make it.”

About the authors

Bill Clemens, III, leads Spencer Stuart's global Pharmaceuticals Practice. Bill focuses on conducting senior-level executive searches for a range of functions, including sales and marketing, R&D, human resources, legal and finance for biotechnology and pharmaceutical companies.

Mark Yowe leads the firm's global Medical Technology Practice. His search work focuses on C-level and board positions within the medical device, diagnostics, hospital supply, distribution, healthcare information technology and for-profit health services areas.

OPTIMIZING PERFORMANCE: DEFINING A CULTURE AND BUSINESS STRATEGY TO ENABLE SUCCESS



George Scangos

It's been a period of evolutionary change at Biogen Idec since George Scangos took the reins as CEO in the summer of 2010. Scangos, who had previously been president and CEO of Exelixis, was attracted to Biogen Idec's deep scientific roots but saw potential for even greater success.

Scangos led the drive to refine the company's focus to its core work in neurology, immunology and hemophilia because he saw those areas as having the greatest potential for Biogen Idec. This move led to a 13 percent reduction in the workforce and the closure of the oncology business.

The other changes center on Biogen Idec's corporate culture. He encouraged appropriate risk-taking and revised the program management system. His efforts are being rewarded on Wall Street, which made Biogen Idec one of the top-performing S&P 500 stocks of the past year.

Spencer Stuart spoke with Scangos recently about his first year in the post, the moves he sees as key to turning the company around and his thoughts on the opportunities for Biogen Idec in the future.

It was no secret that a new Biogen Idec CEO would inherit a challenging situation, especially in regard to its board. What opportunities did you see in this company that made it attractive?

Scangos: The proxy battles and activist shareholder involvement that had been a part of the recent company history certainly didn't seem attractive on the surface.

However, the underlying truth is that Biogen Idec is a very proud company with a great history and, despite the issues at the time, it is a flagship of the industry. The other linchpin was the fact was that Biogen and Idec were both founded on scientific excellence. Two Nobel Prize laureates were among the founders of

Biogen and both companies had strong roots as biotechs.

The more I spoke with the board members the more interested I got. The board pledged to put all of the divisiveness behind it and unify behind the CEO. This has proven to be true, and my relationship with the board has been very productive and they've been very helpful in helping me run the company.

Of course, there were risks, but in the end the possibilities were just too interesting to pass up.

Describe the culture of the organization when you first arrived. How has the spirit and philosophy evolved during the past year?

Scangos: It was evident from the issues at the time that there was a culture of telling me what I wanted to hear. That type of mindset doesn't optimize the performance of the company or its employees. Also, I found that some decision-making and business processes were convoluted and inefficient.

I want a culture where people can speak candidly, voice different opinions and challenge each other in a respectful way. I've found that is the best way to arrive at solutions and get the best outcomes for the company.

Since we are in a regulated industry, there are limits to the risks we can take in some areas. But innovation by definition involves risk, so in other parts of the business, taking a thoughtful, calculated risk is exactly the right thing to do. If

the culture whacks people for taking risks that don't pan out, then employees will not take those risks. And so I encourage taking the appropriate risks, without fear of reprisals, which can lead to great successes.

What route have you taken to assess and then assemble the right management team?

Scangos: Obviously, I couldn't talk to every employee, but I did visit all of the major sites. I gathered a lot of information about how managers make their decisions. With my outsider's perspective, I could look at matters with a fresh set of eyes.

Hiring two former biotech CEOs has worked out extremely well for Biogen. I had known both of them, so I did not have concerns about

BIOGEN IDEC AT A GLANCE

The company was created in 2003 by the merger of Biogen and Idec, making it the third-largest biotechnology company in the world. Today, the Fortune 500 company has annual revenues exceeding \$4 billion and is listed on the Nasdaq stock exchange.

Headquarters:	Weston, Massachusetts
Employees:	4,400 employees worldwide
Geographic Reach:	Direct commercial presence in more than 29 markets
Revenue:	\$4 billion annually
Philanthropic efforts:	\$37 million donated in 2010

“There are many parts of our business where taking a thoughtful, calculated risk is exactly the right thing to do. . . . And so I encourage taking the appropriate risks, without fear of reprisals, which can lead to great successes.”

— George Scangos

whether they would still want to act like CEOs of their own companies.

We've also been careful to be inclusive of the whole management team and avoid the appearance of a "kitchen cabinet." And it's not as if the company didn't have a lot of successes before we arrived. It did. So the new additions to the management team are helping to infuse a little new energy, not to dismantle what has worked in the past.

The magic is getting the right people in the right places.

Describe some of the biggest changes you've instituted, and how you gathered the information you needed to make those decisions.

Scangos: One of the most visible changes will be the consolidation of our operations in Massachusetts. Having the sales, marketing, finance and HR functions in Weston, and the R&D, production and process development in Cambridge seemed inefficient. I wanted to get more interaction between all of the departments, and having two different locations is a barrier to that.

From the strategic business side of things, the organization was focused in too many directions and pursuing things that had little chance of generating any value. We went through a restructuring and shut down the oncology and cardiovascular programs and closed our San Diego site because we were behind the competition in that area. That led us to reduce headcount and eliminate some of the layers of the organization.

From a process standpoint, we installed a good program management system. There had been a project management system, but it was buried down in the organization and hampered by a strong functional orientation that ended up creating silos. I took some of the rising mid-career stars in the organization and named them program executives. So now each of them has CEO-type responsibilities for all aspects of their projects, which gives them some teeth. Of course it created some friction, but it was manageable and has resulted in streamlined decision-making that has helped a lot.

We've already seen success with this style of management, one example of which is Fampridine. After the initial rejection of Fampridine in the E.U., the team knew they had only about a 10 percent chance of success on appeal. Despite that, they worked nights and weekends for months and, in the end, achieved a very good outcome for Biogen Idec and for multiple sclerosis patients with the approval. If they hadn't tried, the 10 percent chance would have been a zero percent chance. It shows what other successes can look like, which is very motivating.

We've also picked up a lot of momentum with the development of the Avonex pen, the intramuscular auto-injector to treat multiple sclerosis. That was no trivial thing. It's been approved in Europe and Canada, and we hope the FDA will approve it next year.

How have you refocused the R&D organization?

Scangos: We hired a new head of R&D, who has been making a lot of changes. We had too many projects, and, as a result, all of the proj-

“One of the challenges of R&D is recognizing your innovators who can provide a creative spark for the rest of the group.”

ects were under-resourced. Now we are focused on fewer projects but each is being taken forward with more power.

Given Biogen Idec’s breadth and scale, is it a biotech or a pharmaceutical company? Does it even matter?

Scangos: It’s interesting because we’re huge compared to most other biotechs but small as a pharmaceutical company.

Biogen Idec’s strength as a pharma is that we don’t have the same level of bureaucracy that a big pharma company has. We can be leaner and faster, and I think we are. As long as we focus, we can compete toe-to-toe in our top areas, which include multiple sclerosis and neurology treatments. Now we are just zeroing in on the areas that we can win.

At the same time, I’d like to retain the atmosphere of a biotech company. To the extent that we can operate in an entrepreneurial and free-wheeling fashion within the confines of a highly regulated industry, I want to do that.

So we are a hybrid and we can pick the best aspects of each world to work in.

What pushes Biogen Idec to keep the discovery spark alive?

Scangos: Each success builds a foundation for the next success. We are already seeing some of

the spark of research innovation pay off. Our neurology people early on saw the potential for dimethyl fumarate, a chemical compound which we didn’t discover. The trial results that we have gotten have proven their insights to have been right on target.

One of the challenges of R&D is recognizing your innovators who can provide a creative spark for the rest of the group. Then the team can turn that spark into something tangible, something of value.

Are biosimilars on your priority list? What lies ahead for Biogen Idec in this area?

Scangos: There is certainly money to be made working on biosimilars. The challenge, which we are positioned to meet, is that biosimilars require sophisticated cell line development, process development, clinical development and analytics.

But it’s a different kind of business, and it’s not clear how it’s going to sort out commercially. We’ve been thinking of ways to participate in the biosimilars market without becoming distracted from our current business.

Describe the challenges you expect to face in the next 10 years and beyond.

Scangos: What is crucial for us now is to stress focus and execution. In the near term, we’ve got to handle our new products right. We have

a lot of challenges right now because we just had one large Phase III program read out, and we anticipate pivotal data on three additional compounds next year. That's a high-class problem, but we have to make sure that we execute flawlessly.

In the long run, once we get through this mass of Phase III, we don't have enough to keep the pipeline refreshed. So the next big issue will be bringing in more Phase I and Phase II assets so that when we get into the '20s we still have new products to introduce.

What has your current board of directors been able to offer you in terms of guidance?

Scangos: My relationship with the board is very good. The board is a group of smart, experienced people. I have a regular, informational call with them to keep them updated. It allows me to bring up some topics that I've been thinking about so that when we get to a subsequent board meeting, it's not a subject that's totally new to the board.

I'm really able to bounce ideas off of them. I think that's been helpful in both directions. In addition to that, the board members bring a lot of business expertise. Several members have a lot of financial expertise. I rely on their good judgment and they provide a good foil for management proposals.

Looking back over the past year, what lessons have you learned?

Scangos: We had some tough decisions to make and, like many organizations, you tend to think about them too long and let them linger.

While you want to ensure you are gathering the right inputs, in some sense you should just make the decision and get on with it. The challenge is reaching the right balance between being decisive and making good decisions quickly without shooting from the hip. As John Wooden said, "Be quick, but don't hurry." There is a big lesson in that. I believe the things we've done over the past year have been good and I would still have done them in retrospect. And, in some sense they went very fast. But, I think we could have gotten to some of those decisions earlier so we could be at the point we are today sooner — with excellence across the board.

About the interviewers

Joe Boccuzzi focuses on CEO, board and other senior-level assignments for medical device, pharmaceutical and biotechnology companies and for private equity and venture capital firms specializing in healthcare investments. He was the global leader of Spencer Stuart's Life Sciences Practice for more than a decade and currently leads the practice's North American efforts.

Mimi Hancock, Ph.D., leads Spencer Stuart's Biotech and R&D practices. Her search experience has given her the opportunity to complete assignments for organizations ranging from emerging life science companies to multinational biotechnology and pharmaceutical firms. She has executed searches for senior executives in general management, basic, discovery and clinical research, product development and a variety of commercial positions.

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Spencer Stuart's Life Sciences Practice

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