

# Disruptive Strategy: Thriving in a Pluralistic Payment Environment

BY MICHAEL J. ZACCAGNINO AND TRAVIS FROELICH, COPE HEALTH SOLUTIONS

**T**oday, CEOs and boards of health systems, medical groups, hospitals, community-based organizations (CBOs), and provider organizations of all types are challenged with mapping the best way forward in a pluralistic payment environment. On the one hand, the market is increasingly characterized by risk-based payment models that incentivize and encourage providers to reform the delivery system and invest in population health programs and infrastructure. These contracts incentivize providers to better manage the health of the communities they serve in the most efficient manner possible. On the other hand, fee-for-service models continue to be pervasive in most markets, encouraging a volume-based approach to clinical program development and system building.

As CEOs and boards consider their organization's vision and mission and formulate strategy, many feel that the industry has reached a "fork-in-the-road," while others are considering a pluralistic path forward. That is, some healthcare leaders have embraced the values that underpin population health as non-negotiable and have decided to advance value-based delivery system reforms alongside their volume strategies, despite payment complexities and inequities. While every organization arrives at this conclusion for different reasons, most agree with the premise that providing patients and families with better, more affordable care is just the right thing to do, and by extension will increase consumer engagement and lead to market expansion and growth opportunities. This strategic position has gained momentum in recent months, as many boards are challenged by the level of inertia related to both state and national payment reform.

To advance on both volume- and value-based strategies, CEOs and boards must think "disruptively" as they navigate and map the organization's future. Budgets, investment plans, strategic priorities, governance models, and in some cases, even the organization's vision and mission must be recalibrated.

## Three Strategies to Consider When Embracing Volume- and Value-Based Delivery Models

As healthcare boards think about the future, here are a few strategies that they should consider adapting for their organizations.

### 1. Test the Mission to Ensure That Population Health Is Reflected in the Organization's Purpose

To deliver service to the community in a sustainable manner, boards should consider the economic and moral imperative to provide high-quality, affordable healthcare. This imperative is driving a challenging, multi-stage transition, where *both* volume *and* value are key to the organization's success over time. High-performing organizations must consider assessing whether their vision (i.e., desired results), strategy (i.e., focus), intermediate tactics, and investment plans reflect this dual focus.

Many boards continue to think about patient care, research, and teaching as top priorities, reflecting performance through traditional hospital and provider fee-for-service metrics such as patient volume, cost per case, and length of stay, as opposed to population health management measures such as vaccination rates, emergency department visits and other utilization rates per 1,000, and avoidable admissions. Similarly, many organizations continue to invest in replacement hospitals, recruitment of expensive specialists, and high-end medical technologies, while under-funding population health programming (e.g., patient engagement or care management) and infrastructure (e.g., health analytics or performance improvement).

### 2. Revisit Strategy and Make Sure the Organization Is Well-Positioned for the Future

By reframing the organization's mission and desired results, the board will reset the stage for strategy formation and investment planning, aimed at advancing both the value and volume agendas, enabling improvements in community health status, quality, growth, and affordability, as well

## Key Board Takeaways

For healthcare organizations on or starting down a "disruptive" path and embracing both volume- and value-based delivery models, the board should:

- Test its mission to make sure that population health is reflected in the organization's purpose.
- Revisit its strategy and make sure the organization is well-positioned for the future.
- Incorporate population health into its governance and determine whether the CEO and executive team are positioned to execute in a pluralistic environment.

as the financial health of the organization. More specifically, many providers have become adept at managing revenue cycle, supply chain, labor spend, and inpatient/outpatient volume. However, relatively few are proficient with delivery system restructuring, payment system reform, or service-based program development that meets community needs and advances both the volume and value agendas (e.g., co-locating primary care and behavioral health). By pursuing these and/or similar strategies, the organization will experience some critical "wins" and begin to develop "muscle memory," which will be a key organizational asset throughout the journey.

While entering into merger or acquisition work may be beneficial for some organizations, the notion that this form of system development will lead the way is likely flawed, and doesn't fully account for the financial and clinical implications associated with excess overhead/capacity; community, member, and patient needs; or the opportunity costs associated with this work. Specifically, system building of this sort may make it difficult for the organization to invest in CBO partnerships and care management systems, as well as in physician alignment, network development, clinical integration, managed care solutions, and population health infrastructure—all initiatives central to the organization's long-term success.

As one example, efforts that reduce network leakage (i.e., care provided outside of the organization's physician and facility network) may be advanced more easily if the organization is not in flux. Reduced leakage translates into more volume for the organization, while at the same

time concentrating care and positioning the organization for better adherence to clinical protocols—key to producing optimal clinical outcomes and reducing the cost per encounter and cost per episode of care.

As part of the strategy refresh, the board must engage in discussions about the pace and cadence of the organization's journey and frequently assess its place in the competitive landscape.

### **3. Incorporate Population Health into Governance and Determine Whether Leadership Is Positioned to Execute in a Pluralistic Environment**

High-performing boards recognize the need to collaborate in the current environment. Success in a pluralistic payment environment will be in large part determined by board effectiveness. In order to thrive, boards must be comprised of leaders, not just from the provider organization itself, but from the patient and

member community, housing authorities, schools, social clubs, religious institutions, and other CBOs. This approach, while politically challenging in some markets, will yield tremendous “downstream” results, as providers shift from treatment-centric enterprises to organizations working to improve the health of the communities they serve.

In order to make this change, providers may also need to recast the governance structure and systems and invest in board development. For some organizations, this may mean considering the addition of a population health subcommittee of the board, for others it may mean adopting more “whole-person” or population-based performance metrics, and still others may need to contemplate revisions to the nominating and recruitment processes, as well as to board and committee memberships. Other elements of the board's responsibility in this regard include recruitment and ongoing development of the CEO. Boards

might also be required to support the CEO in assessing whether the organization has the appropriate configuration of executive talent to execute on strategy and meet daily operating requirements.

While refining the organization's mission, recalibrating its strategy, and developing the capability to lead and manage in a pluralist payment environment will result in significant strategic “disruption,” there is no better formula for enabling the board and CEO as they work to fulfill their community and fiduciary responsibilities, and position the organization for long-term success. ●

*The Governance Institute thanks Michael J. Zaccagnino, Executive Vice President, COPE Health Solutions, and Travis Froehlich, Board Member, COPE Health Solutions, and former Chief Strategy Officer, Seton Healthcare, for contributing this article. Mr. Zaccagnino can be reached at [mzaccagnino@copehealthsolutions.com](mailto:mzaccagnino@copehealthsolutions.com) and (646) 768-0006.*