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Managing the Disruption in Access to Care

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Key Board Takeaways

- What are two real challenges to healthcare delivery in the next several years that could impact executives' roles and responsibilities and their compensation?
- Why will compensation committees need to monitor "access to care" as a key criterion for organizational success and pay-for-performance?
- How might management's pursuit of new revenue streams require compensation committees to rethink their overall approach to executive compensation?

The healthcare industry has had no shortage of upheaval and sizeable business challenges. As we prepare to weather a new round of political debate and shifting alliances among the largest players, boards and management teams of healthcare organizations must continue to move forward on their transformation journey. They will need to carefully consider all possible avenues for financial stability and a competitive edge, even as significant disruption is taking shape.

There are several current and pressing areas for healthcare organizations where compensation may play a significant role. Two of the biggest changes happening are the onslaught of new industry partnerships that are changing how consumers access non-urgent or minor emergency care and the search for new revenue sources.

The Impact of Disruptive Industry Partnerships

Many different types of companies are now entering the healthcare marketplace and disrupting medicine's traditional delivery channels by focusing directly on healthcare consumers. Some recent examples include:

- CVS acquired Aetna to "remove barriers to high-quality care."
- Walgreens and Microsoft are partnering to provide immediate connectivity between consumers, providers, pharmaceutical manufacturers, and payers.
- Anthem is partnering with Walmart to deliver a new and convenient Medicaid program.
- Humana and Walmart have established the Humana Walmart Prescription Drug Plan.
- Amazon, Berkshire Hathaway, and JPMorgan Chase are partnering to "enable improved quality and overall transparency and speed within the healthcare sector."

These collaborations between retail, finance, technology, and insurance companies constitute true disruptive innovation and will upend the way individuals and families encounter immediate and primary care, as well as obtain and pay for prescriptions. Patients' waiting time to access medical care is a prime example. "Access to care" measurements continue to be critically important to providers for care quality and reimbursement and often appear in a healthcare executive's incentive compensation program. Traditionally those leaders able to drive down the number of days or weeks between a patient requesting an appointment and seeing a physician were rewarded with some portion of an incentive award. These new disruptive partnerships are already changing the conversation from days to hours and minutes. More traditional providers are likely to be perceived by consumers as "too little, too late."

Healthcare compensation committees should be aware, however, that accelerating service or utilizing technology alone will not constitute the type of innovation needed to survive and succeed against these newer for-profit retailers, who are experienced in giving the customer what they want while turning a profit. As digital connectedness enables real-time video and audio interactions between medical personnel and patients in disparate locations, traditional benchmarks measuring

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gradual improvements like "third next available appointment" will fall away. True disruptive innovation only succeeds when it replaces high cost and complexity with simplicity, convenience, accessibility, and affordability—and achieves effective outcomes.

Changing Revenue Sources

Further, the revenue associated with traditional acute care services will continue to decline faster than non-profit healthcare providers can reduce expenses, mostly due to reimbursement reductions, the tremendous shift to outpatient care, and the expansion of ambulatory care competitors. Revenue growth attributable to outpatient care exceeded inpatient revenue for the fifth straight year in the U.S. Hospitals and health systems that focus solely on expense reduction will disappear.

Many healthcare organizations will continue to repurpose and sell off existing assets (like inpatient facilities) and monetize peripheral businesses (food services, transportation, parking, etc.). Others continue to establish or partner with physician-led ambulatory surgery centers and enroll patients in risk-managed care plans.

More recently, traditional provider organizations have begun actively seeking completely new sources of revenue. Some have created venture capital branches to identify opportunities for non-traditional collaborations. Others have invested in outside telemedicine businesses so they may fully automate their patients' access to care experience. Key in all of these initiatives is the need to drive market share, convert prospective patients into repeat customers, and heed the customers' voice in order to improve the patient experience.

The ongoing proliferation of non-traditional money-making strategies will change the composition of the leadership team and the roles and responsibilities of those leaders. Forward-thinking boards and compensation committees will work with their CEOs to understand anticipated changes to their business and will research the executive talent and compensation characteristics of targeted areas of operation. Many of the leaders that will migrate into the C-suite from for-profit businesses will be familiar with executive compensation programs featuring larger pay-at-risk components than that associated with traditional non-profit healthcare. They will likely have participated in annual and long-term incentive arrangements, often directed through an executive employment agreement.

Compensation committees will be challenged to develop compensation arrangements that are equally compelling and fair to all participants. Performance incentive plans for diverse management teams deploying their expertise into far-flung businesses will need to feature high-level shared goals in which all have a vested interest, not unlike those found in public companies. Challenging too will be the task of identifying competitive levels of total direct compensation for hybrid and non-traditional executive roles. These compensation arrangements will also need to shift to align with and track an organization's ability to accelerate *simultaneous* improvements across clinical outcomes, length of service cycle, patient experience, consumer cost, financial efficiency, and operational simplicity.

As we have learned in the past decade or so, there are no simple answers to healthcare reform. While the scope of the challenges facing the healthcare industry and its leaders is vast, there are many advancements taking place and new models are becoming the norm. And while they are not a magic wand, carefully constructed compensation plans for the executive leaders enacting this change can provide a useful and effective tool for boards.

The Governance Institute thanks Steve Sullivan, Managing Director in the Houston office of Pearl Meyer, for contributing this article. He can be reached at steven.sullivan@pearlmeyer.com.