

Straight Outta COVID: Healthcare in the 4th Industrial Revolution

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1

The Starting Point

- Contemporary management is all about getting the proper arrangement and alignment of your internalities and the externalities that you face at any given moment.
 - Internalities are, of course, the business conditions which are generally under your control.
 - And externalities are the conditions which are generally beyond your control.
- At times you find that internalities are ascendant, and at other times externalities are ascendant.
- The healthcare CEO must constantly tinker with and adjust his or her organization's operating style and strategy. Be more aggressive when internalities are ascendant, and show more care when externalities have the upper hand.

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2

2

External Business Conditions Have Never Been More Formidable

- The unknown post-COVID care and economic environment
- Unprecedented business technological changes
- Rapidly evolving consumer demand
- The demands of the social justice movement
- The fast developing business demands of climate change
- A divisive political/business environment
- An American culture that is increasingly difficult to both interpret and navigate

3

What Is the Goal for the Post-COVID Period?

- Given this completely out-of-balance internality/externality relationship, what are the strategic and operational goals of hospitals and health systems coming out of COVID?
- It is NOT to find your way back to your pre-COVID comfort zone...
- But rather to negotiate and navigate your way to being the best performing healthcare organization you can be within the post-COVID business environment.

4

The Lesson for Post-COVID

- Re-set your strategic direction and re-set your operating methodology.
- But recognize that this re-set will likely fall competitively short if you have not assessed the changing business externalities correctly.
- Put differently, this is the massive change in our society that has developed both post-COVID and post George Floyd. The externality question of the moment for your organization, writ large, is this:

*When you look out at America now,
what does your healthcare organization see?*

5

What are some of the
most significant elements of the
post-COVID environment that
healthcare leaders need to get right?

6

We Have Entered the 4th Industrial Revolution

- We are in the midst of a revolution that is fundamentally changing the way we live, work, and relate to one another.
- This revolution is already characterized by high-speed mobile internet, artificial intelligence, automation, big-data analytics, and cloud-based technology.
- These characteristics will deliver substantial improvements in business quality, business speed, and organizational efficiency.
- However, these same characteristics are leading to unprecedented labor dislocations, unforeseen products and services, and radical changes in consumer behavior. All of which will make your business life much more difficult.

Source: Schwab, Klaus: The Fourth Industrial Revolution, World Economic Forum, 2016

First Industrial Revolution

(1760-1840):

Railroads and steam engines ushered in mechanical production

Second Industrial Revolution

(late 19th Century-early 20th Century):

Mass production fostered electricity and assembly lines

Third Industrial Revolution

(1960s-1990s):

The computer revolution grew from semiconductors and mainframe computing to personal computing and the internet

7

Social Justice and Social Responsibility Will Have Greater Urgency

- Social justice and good citizenship are requirements of the modern corporation, especially one with a charitable mission.
- Key elements include diversity, equity, inclusion, sustainability, economic fairness, equal access to education, and equal access to healthcare.
- The scope of social justice and responsibility will continue to expand, and the pace will continue to accelerate.
- Healthcare CEOs and boards will need to decide the extent to which they want to lead in these efforts, understand the repercussions of their position, and set their goals and actions accordingly.

8

Big Changes Are Occurring in Healthcare Supply and Demand

- **Consumerism:** Convenience, accessibility, and personalization will become major considerations in the selection of healthcare providers.
- **Health Disparities:** Major gaps in health, healthcare access, and mortality for lower income communities of predominantly racial and ethnic minorities must be addressed.
- **Demographics:** The over-65 demographic will continue to increase its portion of the general population, resulting in more Medicare patients, who have a higher incidence of disease.
- **New Competitors:** Private equity, large health insurers, and big tech firms will continue to enter healthcare. Their goals will be to create value (better outcomes at lower costs) and to develop large digital platforms. These players operate in the “cash market” and attempt to separate patients from their traditional providers.
- **Consolidation:** Consolidation will continue, as weaker organizations seek partners and as scale becomes more necessary to obtain and maintain resources to secure an expanding healthcare mission.
- **Hospital Decanting:** Lower acuity inpatient and outpatient services will continue their shift to settings outside the hospital campus.

9

Healthcare's Economic Model Continues to Change

- **Health Plan Scale:** Scale is imperative for health insurance companies to be profitable, invest in product innovation and expansion, and maintain actuarial relevance. The health plan side of the delivery system is getting massively larger.
- **Margin Erosion:** Without revenue growth and cost structure reduction, expense increases will continue to outpace revenue.
- **Value-Based Care:** Overall, economic risk will continue to be shifted to providers and to patients.

10

As you assess the changing relationships between internalities and externalities, healthcare leaders need to determine the strategies and operating plans that will make a difference.

11

Consumer-Centricity Strategies

Consumer-centricity is a new basis for competition. Speed to market and achieving sophisticated capabilities will be necessary for success. Strategies can include:

- Develop or partner for non-acute/digitally enabled **multi-channel care delivery services**, including:
 - Hospital at home for lower acuity inpatients
 - Diagnostic, testing, therapy and other services that can be provided in the home
 - Lower cost alternatives to hospital-based services such as imaging, ambulatory surgery, and other procedural services
- Develop or partner for a simple digital system for patients to navigate their **healthcare journey** from diagnosis to treatment to recovery. Assume that patients will migrate to the easiest healthcare solution available.

12

Social Justice Strategies

Fulfilling the mission of a healthcare provider organization requires leadership in the fight for social justice, including diversity, equity, and inclusion.

Strategies include:

- Enhance diversity at the board and executive levels.
- Understand and improve major health disparities and healthcare inequities in the communities served.
- Participate in advocacy for expansion of insurance coverage and other equity issues.
- Focus charitable activities toward social justice issues and outcomes.

13

Delivery System Transformation Strategies

Transforming the core delivery business is necessary for truly exceptional outcomes in clinical quality, patient experience, access, safety, equity, and financial performance.

- **Expand clinical services** to meet imperatives for access, requirements for top-flight facilities, and opportunities for market growth.
- **Reimagine care models** that are tailored to specific population cohorts; emphasize access to preventive and routine care in settings that are most convenient and appropriate for each population group; use integrated teams of clinicians, including physician assistants, skilled therapists, care coordinators, and home health aides; and make use of advanced technology, particularly for remote care.
- **Develop a fully integrated digital health strategy**, including telehealth, remote monitoring, wearables, and artificial intelligence.
- **Use advanced data and analytics**, in real time where possible, for clinical and operational excellence and efficiency.
- **Integrate consumer-centricity strategies**—including healthcare at home and a world-class digital platform—into a seamless continuum of care.
- **Work with partners** to expand intellectual and technology capabilities necessary for transformation.

14

Operating Efficiency Strategies

Operating efficiency is essential to achieve bold and continuous improvements in long-term cost structure and market share, and to generate the necessary margin and capital. Sample initiatives include:

- Transform transactional functions.
- Align management incentives with core performance metrics and strategic goals.
- Establish a path for product and service innovation.
- Maximize organic revenue growth.
- Streamline corporate structure by consolidating or eliminating unnecessary entities, boards, and committees.
- Align capital allocation with high-priority strategies and goals.
- Consider outsourcing and offshoring when the return is equal to the effort and the risk.

Value-Based Care Strategies

Although different healthcare markets will develop at varying speeds, organizations need to build a product portfolio to take advantage of the inexorable movement from fee-for-service to value-based payment. Strategies include:

- Access or develop a large (or at least sufficient), integrated, physical and virtual primary care network of employed and affiliated providers to support value-based care while serving as a feeder system to hospitals.
- Enter into the insurance marketplace in a way that's consistent with the size and financial capabilities of your organization
 - For large, sophisticated systems, that could include products for the commercial, Medicare Advantage, Medicaid, and direct-to-employer markets.
 - For smaller healthcare organizations, all of this is likely to require sophisticated partnerships.

Workforce Development Strategies

Clinical, administrative, and work-related transformations will significantly change many healthcare roles. Organizations will need to do the following:

- Identify areas of high workforce demand and anticipate potential shortages.
- Develop formal employee re-skilling programs, offering a career change for employees affected by job change.
- Implement a hybrid office/remote work environment for selected job classifications, with the objective of higher productivity and employee engagement.

17

Organizational success in a period of revolutionary externalities requires new qualities of **internal culture and leadership**.

18

Healthcare Culture and Leadership in Revolutionary Times

- **Mission.** Careful stewardship and promotion of mission with consumers, the community, and employees builds brand identity, employee commitment, and community/political support.
- **Patient Centrality.** The patient's perspective and best interests are at the center of everything the organization does.
- **Employee Engagement.** High employee engagement is essential for high organizational performance.
- **Simplicity.** Complexity is the enemy of speed, quality, and efficiency.
- **Integration.** Integration of people, processes, and technology leads to lower cost, higher reliability, and coordinated patient care journeys, and it builds an operating platform to connect to new partners.
- **Agility.** Agility, speed, and innovation are essential to attract top talent and compete with disruptive market entrants.
- **Financial Stewardship.** Consistent achievement of financial goals provides the capital and resources necessary to achieve strategic goals regardless of internal or external events.
- **Growth.** Vibrant and successful organizations grow, signaling consumer satisfaction, expanding mission, creating scale for new capabilities, and attracting top talent.

19

Characteristics of Post-COVID Success

- Assume that nothing is the same; give yourself a clean slate to work with.
- Winners will be the smart and clear-thinking organizations.
- A certain amount of organizational aggressiveness is essential.
- Your healthcare organization's reputational asset can be lost in a second; it is to be safeguarded at all costs.

20

“When you invent the ship,
you also invent the shipwreck.”

– Paul Virilio
French Philosopher



21



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For more than forty years, Ken Kaufman has been one of the leading thinkers on the future of healthcare. He is the Chair of Kaufman Hall, a management consulting and software firm that he founded in 1985. Ken has helped healthcare organizations of all sizes with their most critical strategic challenges. He is also the author of seven books and hundreds of articles, and he has delivered more than 400 speeches, most recently focusing on healthcare disruption. In 2019, he received the Richard L. Clarke Board of Directors Award from the Healthcare Financial Management Association for lifetime contribution to healthcare.

22