

# Reclaiming Ambition: Creating the Post-Pandemic Healthcare System

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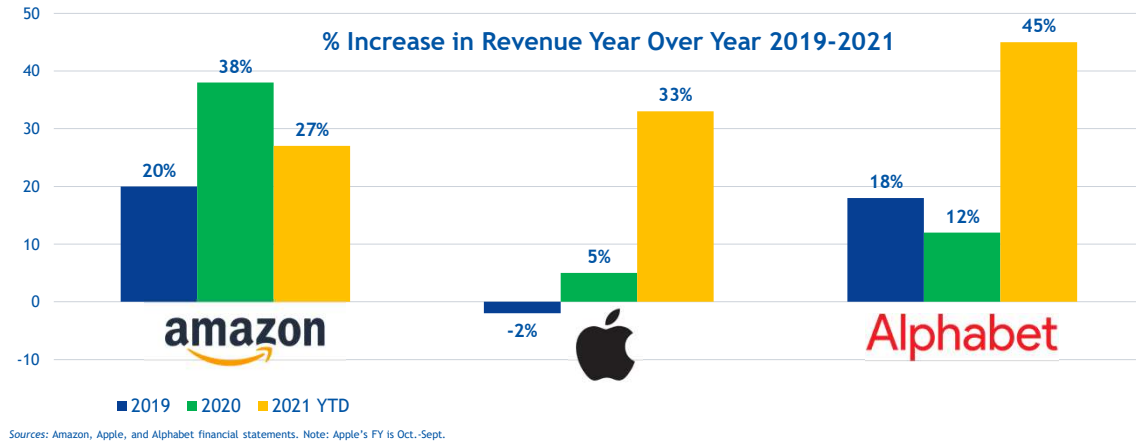
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As COVID enters its third year,  
the dramatic macroeconomic changes of the  
pandemic are becoming a more permanent  
part of the business environment.

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## The Macroeconomic Platform Is Now a Big Tech Platform

While companies with a face-to-face business model have suffered during the pandemic, big technology companies have leveraged scale, aggressiveness, and ambition to achieve record revenue increases.



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## Workforce Dislocation Is Now a “Permanent” Problem

- In April 2020, during the first wave of COVID, more than 5 million Americans left the workforce<sup>1</sup>
- Between May and September of 2021, as COVID dragged on, 20 million Americans voluntarily left their jobs<sup>2</sup>
- 1.4 million mothers with school-age children found themselves forced to leave the paid workforce during the pandemic<sup>3</sup>
- The percentage of women in the workforce is lower than it has been for 30 years<sup>4</sup>
- Half of all employees and more than two-thirds of white-collar employees are working remotely<sup>5</sup>
  - More than 90% of U.S. workers said that they hope to continue working remotely to some degree after the pandemic<sup>6</sup>

Sources: 1. U.S. Bureau of Labor Statistics; Cassella, M.: “The pandemic drove women out of the workforce. Will they come back?” *Politico*, July 22, 2021. 2. U.S. Bureau of Labor Statistics. 3. Heggeness, M.L., et al.: “Tracking Job Losses for Mothers of School-Age Children During a Health Crisis,” U.S. Census Bureau, March 3, 2021. 4. Cassella, *Politico*. 5. Saad, L. and Wigert, B.: “Remote Work Persisting and Trending Permanent,” Gallup, Oct. 14, 2021. 6. Saad, Gallup.

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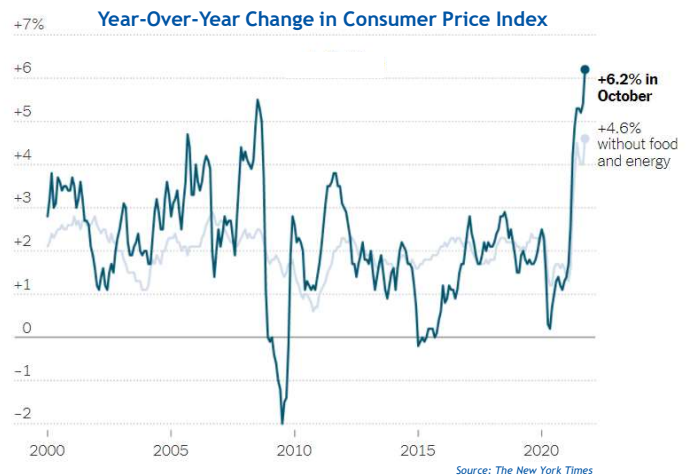
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## COVID Has Created an Unexpected Increase in Economic Inflation

- Hospitals are dealing with this problem as much as any industrial vertical, particularly in labor expenses
- Inflation is rising at the highest rate in three decades<sup>1</sup>
  - Prices rose 6% over the past 12 months<sup>2</sup>
  - The Federal Reserve seeks a 2% inflation rate with full employment over the long term<sup>3</sup>
- Inflation is being driven by “supply and demand imbalances related to the pandemic and the reopening of the economy”<sup>4</sup>
- In the early 1980s, reducing the rate of inflation from 10% to 4% involved a major, prolonged period of unemployment<sup>5</sup>



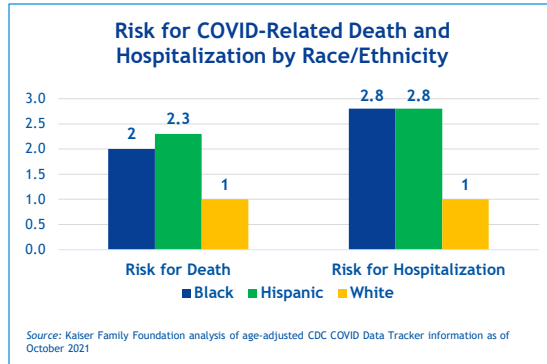
Sources: 1. Smialek, J.: “Fastest Inflation in 31 Years Puts More Heat on Washington,” *The New York Times*, Nov. 10, 2021. 2. Smialek, *The New York Times*. 3. Press release: “Federal Reserve issues FOMC statement,” Dec. 15, 2021. 4. Federal Reserve. 5. Krugman, P.: “Working Out: What Would a Hard Landing Look Like?” *The New York Times*, Dec. 17, 2021.

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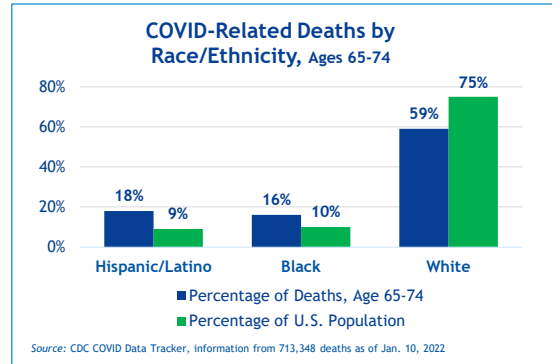
Along with macroeconomic changes, COVID has intensified deep-seated social problems that have plagued this country for generations. We’d like to highlight two of special concern.

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## COVID Put a Spotlight on the Longstanding Crisis of Health Inequity



Hispanic and Black individuals are at least twice as likely to die from COVID as their white counterparts and almost three times as likely to be hospitalized



Percentage of deaths from COVID for Hispanics and Blacks is greater than their percentage of the total population in most age groups, while for whites, the percentage of death is significantly less than their percentage of the total population

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## A Reality Check on Health Equity

- Achieving health equity is a challenging problem that is not being solved comprehensively, and the overall pace of change is inadequate
- Achieving health equity will require large organizations with competency, sophisticated capabilities, and exceptional financial and intellectual resources
- These characteristics must be woven together with the organizational values that will assure success in solving health equity problems wherever and whenever such inequities are found

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## COVID Has Highlighted Long-Term Underinvestment in Public Health

- Research shows that the U.S. has a \$4.5 billion shortfall in funding to provide a minimum standard of foundational public health capabilities<sup>1</sup>
- The fragmented system suffers from
  - a lack of planning and coordination
  - an insufficient workforce and training
  - a failure to create an infrastructure capable of providing basic public health functions such as vaccine development and distribution.<sup>2</sup>
- During the pandemic, test development, test administration, contact tracing, and vaccine administration have fallen largely to the nation's provider health systems, along with the 3+ million hospital admissions related to COVID-19<sup>3</sup>

Sources: 1. Maani, N., Galea, S.: "COVID-19 and Underinvestment in the Public Health Infrastructure of the United States, *The Milbank Quarterly*, June 2020. 2. Olove, M., Vestal, C.: "Public Health Systems Still Aren't Ready for the Next Pandemic," *The PEW Charitable Trusts*, Jan. 27, 2021. 3. Centers for Disease Prevention and Control, COVID-19 Data Tracker, Oct. 13, 2021.

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## What these Macroeconomic, Equity, and Public Health Challenges Mean for America's Health Systems

- As the COVID crisis continues, the job of America's health systems is to deliver exceptional and equitable healthcare to 330 million Americans, while confronting the current pandemic and broad problems of social and economic justice in America
- To make the situation even more confounding, these problems will need to be met on a new economic platform
- Therefore, meeting these challenges will require a new level of health system ideas and a new level of health system aggressiveness and a new level of health system ambition

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Let's unpack the greatly increased resources, intellectual capital, risk tolerance, and capabilities that health systems will need to tackle the related issues of health equity and public health within a fast-changing macroeconomic platform.

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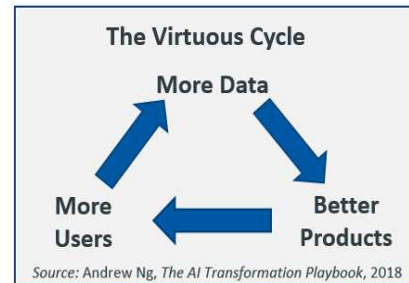
## Health Systems Cannot Adequately Respond to Such Complex Demands Without Significantly Enhanced Resources

- The need for cash, balance sheet and capital capacity is being accelerated and enhanced by the multiple crises
- The level of investment required will likely be unprecedented in order to meet public's changing need for healthcare delivery
- The key economic principle in the development of these resources is the law of large numbers

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## The Virtuous Cycle Is Key to Unlocking the Macroeconomic Platform

- The modern economic platform is based on a virtuous cycle with data and scale at its core:
  - The more data you have, the better products you make
  - The better products you make, the more users you have
  - The more users you have, the more data you have
- This is the bedrock cycle of the new economic platform; it is the playbook big tech companies use to achieve their dominant competitive position
- If you are not playing at this level, you are not playing in the contemporary economy



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## Healthcare Organizations Will Need to Dramatically Enhance Their Intellectual Capital

- Given the size of the American economy there has developed an intrinsic relationship between scale and organizational IQ
- Healthcare post-pandemic problems are formidable and can only be solved by the very smartest ideas from the very smartest people
- Both R&D spending and R&D productivity in the development of products, services, and processes have been shown to increase with scale<sup>1</sup>
- Scale has given companies like Google, Amazon, Apple, and Facebook a huge advantage in the war for smart people

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## Healthcare Organizations Will Need to Manage the Risk of Big Ideas

- Problems as big as public health, health equity, and care access will only be solved by the biggest ideas
- Ideas that have the ability to solve intractable problems come with significant financial and managerial risks
- At large organizations of scale, these kind of big ideas can be viewed as a learning experience

- In 2014, with great fanfare, Amazon launched its own smart phone, called Fire
- The product failed spectacularly
- Within a year, Amazon wrote off \$170 million on the Fire phone, and still had \$83 million worth of inventory<sup>1</sup>
- What would have been a disaster for another company was a blip on the radar for Amazon
- Bezos told the executive in charge, “You can’t for one minute feel bad about the Fire Phone.”<sup>2</sup>
- At Amazon, it was not a failure, but a learning experience: Technology from the Fire phone led to Alexa, which now accounts for 69% of smart speakers used in the U.S.<sup>3,4</sup>



Sources: 1. Rubin, B.F., and Cheng, R.: “Fire Phone one year later: Why Amazon’s smartphone flamed out,” CNET, July 24, 2015. 2. Clifford, C.: “Jeff Bezos to exec after product totally flopped: ‘You can’t, for one minute, feel bad,’” CNBC, May 22, 2020. 3. Duhigg, C.: “Is Amazon Unstoppable?” The New Yorker, Oct 10, 2019. 4. Bishop, T.: “Amazon maintains big lead over Google and Apple in U.S. smart speaker market, new study says,” GeekWire, Aug. 4, 2021.

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## Post-Pandemic Capability Needs Will Overwhelm Pre-Pandemic Needs

- **A fully integrated digital health platform**—including telehealth, remote monitoring, wearables, and artificial intelligence—to decant the inpatient delivery system and move to a truly ambulatory system
- **Sophisticated analytics**, including artificial intelligence, to support more timely and accurate diagnosis and treatment, more efficient operations, and more insightful planning
- **Reimagined care models** that are tailored to specific population cohorts, emphasize access to preventive and routine care in convenient and appropriate settings for each population group, use integrated teams of clinicians, and make use of advanced technology, particularly for remote care
- **Expanded intellectual and technology capabilities**, speeding new discoveries to the bedside, to homes, and to devices

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Health systems will not be able to make a significant difference in the enormous problems of health equity and public health, and they will not be able to compete on the new macroeconomic platform, without new levels of ideas, ambition, and aggressiveness.

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## Big Ideas, Big Ambition, and Big Aggressiveness

Following are four examples that illustrate the mindset that healthcare organizations will need if they are to step up to America's public health, social, and economic challenges

- Advocate Aurora Health's decision to raise its minimum wage
- Indiana University Health's decision to freeze prices
- An MIT researcher's push to implement a breakthrough in AI for early detection of breast cancer
- Amazon's response to a dramatic decline in revenue growth

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## “Advocate Aurora Health Invests \$93M To Boost Minimum Wage”



- Advocate Aurora, one of the largest not-for-profit employers in Illinois and Wisconsin, recently announced that it will raise its minimum hourly wage to \$18
  - This affects 10,800 employees, plus 20,000 employees making more than \$18 an hour who will also receive raises
- The pay increase will cost Advocate Aurora \$93 million in just the first year

### Why did Advocate Aurora make this investment?

- In part, it was a workforce issue and a competitive issue: the organization wanted to position itself as a desirable employer
- AAH also viewed this as a social justice issue
  - Many of the people holding these positions are members of racial and other groups that have historically been economically disadvantaged

### How could Advocate Aurora make this investment?

- Ambition to tackle big problems
- Aggressiveness from decisive leadership at the board and executive levels
- Scale and balance-sheet strength

The first fiduciary job is to see to the success of the organization.  
The question is whether you can make fundamental social changes through that lens.

Source: Paavola, A.: “Advocate Aurora Health invests \$93M to boost minimum wage,” *Becker’s Hospital Review*, Nov. 11, 2021.

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## “Indiana's Largest Hospital System Announces Price Freeze”



### Indiana University Health

- Indiana University Health announced that it would freeze prices for five years<sup>1</sup>
  - The freeze is for all commercial payers
- IU estimates that the freeze will save patients and employers more than \$1 billion over five years

### Why did IU Health make this move?

- Clearly, this was not a completely altruistic move
  - IU Health had been criticized for having prices higher than national averages
- But it was a bold response to an extremely difficult problem
- Healthcare affordability is a major economic and social justice issue
  - 30% of Americans did not get treatment for a health problem due to cost in 2021<sup>2</sup>

### How could IU Health make this investment?

- Ambition to tackle big problems
- Aggressiveness from decisive leadership at the board and executive levels
- Scale and balance-sheet strength

Sources: 1. Associated Press: “Indiana’s Largest Hospital System Announces Price Freeze,” *US News*, Dec. 17, 2021. 2. West Health-Gallup 2021 Healthcare in America Report.

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## “Is Artificial Intelligence About To Transform the Mammogram?”

- After her own experience with breast cancer, MIT AI researcher Regina Barzilay developed a machine-learning program that can predict nearly half of all occurrences of breast cancer up to five years before they happen
- Thousands of breast cancer mammograms from as many screening settings as possible are needed to “teach” the machine to predict the development of breast cancer
- When Barzilay approached hospitals, their reaction was underwhelming

- Most hospitals turned her away, saying breast cancer had been treated for years without AI: “They acted like I was trying to sell snow to an Eskimo”
- One complication of connecting AI to clinical diagnosis is that the algorithm can give an answer but not how it got that answer
- Barzilay’s own care site, Massachusetts General eventually agreed to help and supplied more than 200,000 mammograms for the research
- Since then, Barzilay has made great progress, with Novant and Emory in the U.S. and health systems in Israel, Sweden, Taiwan, and Brazil participating in the research



Out of curiosity, Barzilay fed her initial mammogram into the algorithm. That mammogram had been done three years before her breast cancer diagnosis and had indicated “everything was fine.” The algorithm told Barzilay she was high risk for breast cancer.

Sources: Zeltchik, S.: “Is artificial intelligence about to transform the mammogram?” *The Washington Post*, Dec. 21, 2021, and Yada, A.; et al.: “Multi-Institutional Validation of a Mammography-Based Breast Cancer Risk Model,” *Journal of Clinical Oncology*, Nov. 12, 2021.

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## Making the Correct Business Decisions under Changing Macroeconomic Conditions

- As the macroeconomic conditions change, what you think are the right decisions may not be the right decisions
- Amazon always attacks on what they understand to be the existing business model
- In Q3 2021, Amazon finally seemed to feel the economic pain of the pandemic
  - Sales growth was at its lowest rate in seven years
  - Expenses increased due to labor shortages, higher wages, and global supply chain issues
  - Investors were warned the bad news would continue for the rest of the year
- The typical business response would be to cancel or delay major, expensive initiatives
- So, what did Amazon do?
- Amazon said, ‘We’re not spending enough’
  - In 2020 and 2021 Amazon spent \$80 billion to improve logistics, more than in the previous five years combined
  - In 2021, Amazon increased its workforce by 30%
  - In Q3, Amazon spent \$1 billion on wage increases and bonuses
  - Since the beginning of the pandemic, Amazon has doubled its warehouse space
- These investments have one goal: faster fulfillment than anyone can imagine

**Amazon is doing business on the new economic platform.  
That platform requires big investment in big ideas for long-term organizational success.**

Source: Weise, K.: “Amazon sales growth slows and costs rise,” *The New York Times*, Oct. 28, 2021.

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## What These Examples Suggest about a New Mindset for Healthcare Organizations

- Hospitals are the organizations that truly matter when it comes to healthcare delivery
- And now, because of COVID, hospitals are also the organizations that truly matter when it comes to health equity and to public health
- Moving forward, hospitals will be asked by communities all over the country to be the organizations that truly matter when it comes to a broader set of national problems related to the wellbeing of patients and communities:
  - Problems that COVID has made much worse
  - Problems that the public sector has never been able to solve
- The examples we just reviewed suggest the high level of ambition and aggressiveness needed day in and day out to address these new and growing responsibilities for hospitals and health systems

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America is looking to someone or something to take on what is now a paramount set of national healthcare problems. It is up to the hospital sector to bring its charitable mission, its resources, and its passion to bear on this awesome responsibility.

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## **Kenneth Kaufman**

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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.