

CORPORATE SOCIAL RESPONSIBILITY

The Battle for High-Quality, Low-Cost Health Care

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3 steps leaders can take to increase value.

✔ **INSIGHT** | FRONTIER 04 Dec 2023

Suppose a new supplier enters the market selling a critical component for your business. They won't tell you how much the component costs, only that it's pricey and the costs will increase. They can't guarantee the quality and they have no insights to offer on the value they'll add to your organization. Would you switch to this supplier? Probably not.

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But what would you do if most suppliers acted this way? What would you do then? Perhaps you would create a task force to solve the problem or form an alliance with your competitors to exert some industry-level pressure. Whatever your action, one thing is for certain; you wouldn't just accept this business-crippling behavior.

Now, consider this: our system of healthcare – which provides a critical component to businesses (i.e., healthy and happy employees) – frequently engages in opaque business practices. Surprisingly, leaders, who wouldn't tolerate poor quality, low value, and a lack of transparency from other types of suppliers, seem to accept this opacity from healthcare providers when it comes to their most valuable asset, their people.

The fact that businesses accept this less-than-favorable arrangement is perplexing considering that few challenges loom as large or have a more direct impact on the bottom line than the relentless surge in healthcare costs. For leaders, this isn't just another financial concern; it's a pivotal business imperative demanding immediate attention. It's also a critical challenge they have the power to diagnose and effectively treat.

Diagnosing the Problem

The numbers don't lie. The cost of health benefits has become a towering monolith in employer compensation. According to the **Bureau of Labor Statistics**, employee health insurance is the largest individual compensation cost in the private sector, and there's no relief in sight – **PwC** is projecting healthcare costs to surge by up to 7% in 2024. Given this bleak outlook, it's not surprising that a recent **Kaiser Family Foundation** survey of business leaders paints an equally stark picture, showing that an overwhelming majority of employers (86%) find the burden of healthcare expenses to be, quite simply, excessive to the point where they think government action is necessary in order to contain healthcare costs.

As **Warren Buffett** famously said, “Medical costs are the tapeworm of American economic competitiveness.”

The dilemma, however, is not insurmountable. Amidst this fog of causation, there is a clear path forward that is illuminated by data and transparency. By taking strategic steps today, business leaders can chart a course towards mitigating these escalating costs. Employers can leverage technology to optimize benefit packages and reduce costs. As we navigate this dynamic terrain of healthcare costs, remember this: the financial fate of organizations and the well-being of employees are inextricably linked. Simply put, healthy people equate to a **healthy bottom line**, and the time to act is now.

To diagnose these organizational ailments, leaders need to first consider some of the underlying causes of unsustainable healthcare costs:

Quantity over Quality. A leading contributor to this unsustainable financial illness is the fee-for-service model. In this traditional approach, healthcare providers are compensated based on the volume and variety of services they deliver to patients. Each service, such as a consultation, test, procedure, or treatment, is billed separately, regardless of the outcome or overall quality of care provided. This model tends to incentivize the *quantity* of services over their effectiveness, potentially leading to unnecessary tests, procedures, and treatments.

If a surgeon does a good job with a hip replacement and the patient is soon hiking and playing with grandchildren, that surgeon is paid the same as a surgeon whose efforts result in debilitating pain requiring long-term nursing home care. In fact, one of the authors had a stark conversation with a colleague who had rolled out a successful heart failure program. It drastically reduced hospitalizations. Unfortunately, he was ordered to pull the plug on the program because the loss of hospital admissions cost the hospital money. Essentially, there's little incentive to focus on lasting, cost-effective health outcomes for employees in the fee-for-service model.

Opacity over Transparency. The quality issue is more than just a problem with an unsustainable care model. The unfortunate reality is that there are tremendous information gaps. This results in a **lack of transparency of quality**. As a result, patients and their employers are left in the dark about the true value and effectiveness of the services they receive. They may not have access to critical information, such as the success rates of procedures or the long-term outcomes associated with different treatment options. This opacity not only hinders patients' ability to make informed decisions about their own care but also perpetuates a cycle of costly inefficiency within the healthcare system. It also perpetuates poor decision making by employers and other purchasers of health insurance. Information gaps and "opacity as a rule" *sustains* the current model and contributes to increasingly unsustainable healthcare costs, which are "**crippling America's job creators.**"

Inertia over Innovation. Leaders also need to innovate new ways to define and understand what true "value" is for their employees. One major reason that fee for service has persisted is that it's at least easy to define and calculate. Do a procedure, get paid. Say the right words in a note, get paid. Code the right diagnosis for a hospital stay, get paid.

At the most basic level, value = quality/cost. Therefore, to quantitate value, employers need both quality and cost to be quantifiable and transparent. Unfortunately, to date, **neither quality nor cost** have been available at scale and what has been available is either **incomplete or unusable**. Unfortunately, it's common for employers and other fiduciaries to have **little insight on how much is spent**, what it's spent on, and where it's spent. Healthcare is a complete black box, and we consequently have no idea what opportunities exist to reduce the spend on the second-largest enterprise expense!

Treating the Cause

Collectively, the causes of unsustainable healthcare costs are deep-seated challenges, but they're not untreatable. Armed with an understanding of the root causes, employers can turn their attention towards devising effective strategies to alleviate this burden. Here are three steps leaders can take to improve employee and financial health:

1. Demand Access to Healthcare Cost Data

When employers insist on having access to their data, they address a major underlying problem. Instead of making spending decisions based on guesses and intuition, they can make informed decisions with transparent and frictionless data. Unfortunately, the system is complicated and opaque, leaving it to the patient, consumer and employer to navigate a minefield that seems to be purposely designed to hide true costs and true quality.

The most impactful first step business leaders can take toward transparency is clearly insisting that payers make all their data available to the fiduciaries. For example, the HR managers who purchase these plans should be empowered to push back on restrictive contracts that hide the details of cost data.

When fiduciaries do get access to these data, they can start making objective decisions rather than subjective guesswork. One organization that has done exactly that is the **SEIU 32BJ union in New York**. They are a self-funded plan and demand 100% of their cost data from all their insurance vendors. They have leveraged data analytic tools to yield enormous cost savings without sacrificing the quality of care their members receive. In one instance, they found a 500% difference in the cost of colonoscopy between various providers. Similarly, **Walker Forge**, a self-funded steel manufacturer leveraged existing data and “reduced their all-in health care spend per employee to 28% below the national average and their pharmacy spend is about one-third of the national average per employee.”

2. Demand a Measure of Healthcare Quality

Cost reduction also requires a focus on quality to realize lasting outcomes. By insisting on better measures of quality, employers should be able to see whether a particular patient or group of patients received good care or poor care. Though this seems like a simple concept, executing the details is extremely complicated. The difficulty is in characterizing the quality of care: What metrics will you use? What data will you use to generate the metrics? Which metrics are more important? Should they be weighted more?

An immediate step employers can take towards clear and measurable health care quality outcomes is learning how to effectively utilize existing data. Although health care quality data is relatively sparse, there are some available sources through large organizations such as the **Centers for Medicare & Medicaid Services** at a national level as well as state-level initiatives such as the **Wisconsin Health Information Organization**, which cleans, integrates, and boosts the usability of data to help self-funded employers design benefit plans that encourage employees to use high-quality, low-cost providers.

3. Demand Healthcare Value

When leaders can surface detailed cost and quality data, they'll be more adept at creating efficient networks of care at scale, ultimately enhancing value. One organization that has successfully solved the value equation is Walmart through their **Centers of Excellence** program. Walmart has identified centers of excellence that have proven to deliver excellent care with equally excellent patient experience at a cost low enough that Walmart is able to not only pay for the procedure, but also pay the travel expenses to these centers for the patient and a companion with zero copay by the employee. The key here is understanding that Walmart's success is a result of access to the data that helps them identify centers of excellence. In other words, they know how to leverage their purchasing power to create value.

But what is an organization to do that does not have Walmart's resources? Fortunately, there are ways that *all* business leaders can exert control over the issue, such as **collaborating with other employers in their region** to exercise a strength-in-numbers approach to demanding healthcare data. Numerous groups across the US are emerging to spearhead change, including the **Texas Employers for Affordable Healthcare** coalition and the **Healthcare Purchaser Alliance of Maine**. These coalitions provide valuable

platforms for smaller organizations to pool their resources and advocate for transparent healthcare data, demonstrating that even without the vast resources of a company like Walmart, businesses can still make a significant impact in this crucial arena.

Finally, though this data-driven approach to creating value may seem like a bewildering task, especially when multiple stakeholders are involved, **technology can now shoulder the load**. In the near future, managers who have access to the right data sets will be able to ask a large language model, “What network will give my employees the best quality at the lowest cost?” to deliver cost-effective insights like never before. The AI will help employers connect and optimize outcomes for their people.

The Prognosis

Within the structure of an employer organization, a common tension arises between making financially prudent healthcare decisions and ensuring employees are satisfied with their healthcare benefits. This challenge is further exacerbated by the opacity surrounding healthcare cost, quality, and value data, which hinders the ability to optimize outcomes. Consequently, this trend leads to an increasingly unsustainable healthcare system heading towards complete failure if left untreated. Thankfully, by adhering to our recommended treatment plan, business leaders can expect a positive prognosis. Through advocating for and insisting on transparent and actionable data, they’ll shine a light on their path to enhance the physical health of their people and the financial health of their organization.



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