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How CEOs Can Align Incentives So Healthcare Works For Them

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CEO of Orriant. Helping CEO's lower costs and increase productivity by aligning healthcare to work for them instead of against them.

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As a hospital administrator, I sat at the top of the healthcare food chain. My job was to keep my hospital full, and my primary customers were physicians.

I was teaching the staff how to apply Dr. W. Edwards Deming's principals of continuous quality improvement to gain accreditation. One of the first questions he asks is, "Who is the customer?" Well, who was the customer who paid for our services? It wasn't the doctors, and it wasn't the insurance companies; they were just the intermediary. My primary customers were business leaders willing to purchase healthcare benefits for their employees.

The reality was that I was not aligned with my customer. I wanted my hospital beds full, and I knew that my customer wanted just the opposite. So, why does the fundamental economic principle of aligning with the customer not apply to our country's largest industry?

After running 10 different hospitals, I left the treatment side of healthcare. And during the past 10 years, I have had the privilege of speaking to groups of CEOs. I ask them the question, "Why are you willing to spend so much money on healthcare benefits, and what do you want?" I always get the same answers generally in this order: to attract and retain top talent, to create a healthy productive workforce, to ensure employee satisfaction with the healthcare system and for it not to cost so much.

When I ask how the industry is doing, the consensus is that it does a very poor job, especially in creating a healthy workforce and not costing a lot. And who do we have to blame for the fact that the customers of our country's largest industry are not getting what they want? I get responses that it's for-profit insurance companies and greedy drug manufacturers, but in my opinion, they only have themselves to blame. Do they align incentives with most aspects of their business? For example, do they give their CFO a bonus for profitability? Do they give their COO a bonus for efficiency? Do they give their salespeople bonuses for increased revenue? The CEOs I talk to usually say yes.

I then ask if they have ever given any kind of incentive, bonus or recognition to the people they put in charge of what is often their second-largest cost of doing business to give them what they just said they wanted and are not getting. Only two have said yes.

I then ask the CEOs if the benefit consultants who work with those in charge of benefits are aligned with them. Do they get incentives to be sure the CEO gets all four things they want? I never get a yes. In many cases, the benefit consultants earn more money as the costs soar. A few put their consultant on a flat consulting fee, and an even smaller number pay success fees to their consultants for controlling costs. But generally speaking, CEOs don't align their key representatives of the healthcare industry to accomplish all four things they want. They often ask me how to do it.

Prudential Financial is an example of a company that implemented monitors to measure the health and productivity of its workforce. Dr. Andy Crighton, who recently retired as its chief medical officer, shared with me that when the Affordable Care Act became law in 2010, the health and wellness leadership team at Prudential evaluated whether health would still be important for the company if it was put in a position to not pay directly for medical insurance. The team decided health and performance would still be crucial to keep Prudential competitive. This led to the team adopting the broader aspects of health and well-being: physical, emotional, social, spiritual and financial.

Prudential developed reliable measures of these components to share with employees, human resources, business leaders and strategic partners within the company. Each business group and worksite had its own data, which could be compared to other groups and to itself year over year. Plans to address deficiencies were put into place among the various stakeholders. Prudential took the view that health supports business success, and payment for medical conditions is just one component of the strategy. It adopted accountability at all levels and reported on clear measures of success on a regular basis.

To follow the principals taught by Dr. Deming on the transformation of management, CEOs should put a monitor in place to measure whether their investment in healthcare benefits is giving them the four things they say they want: to attract and retain top talent, to create a healthy and productive workforce, to ensure employee satisfaction with the healthcare system and to cost less.

CEOs should create incentives for their key representatives to see improvements in all four monitors. Companies can influence the entire healthcare system when incentives are aligned.

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