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risk versus uncertainty:

avoiding the post-election uncertainty freeze

by Nancy Wise and Stephen Goldstone

The results of the 2016 presidential election were a surprise. This article is not a review of the Trump transition plan or Paul Ryan's Better Way, or any of the various crystal ball summaries of where healthcare may be heading. We're all reading the same articles and there is still much to learn. *This piece is about how to keep business moving during this period of uncertainty in healthcare.*

The Trump presidency heralds a greater degree of uncertainty for healthcare than a Clinton administration might have. Clinton's intentions were known, and were building upon the existing legislation. Trump has promised to repeal the Affordable Care Act (ACA) has shared some elements of his direction for healthcare, but his policies are likely to be refined over the upcoming years. The 2018 midterm elections just around the corner could result in further policy changes. Given the emphasis the new administration has placed on block funding for states, the result could emerge differently by state, each with its own political climate and health industry dynamics.

In healthcare, we are very good at measuring and managing risk. In fact, this is the very business of health insurance – understanding the range of predictable uncertainties and attaching probabilities to them. We know from experience how to manage population health and predict risks of disease and mortality. Because the business of managing risk is embedded in healthcare profitability, we continue to ratchet up the tools, data, analytics, and methodologies for greater predictability.

However, there is a big difference between risk and uncertainty, and we are less skilled at managing uncertainty. Uncertainty exists when we are unable to identify the future outcome and are unable to assign a meaningful probability to various possibilities.

As Tim Kastelle explains in his discussion of the difference between risk and uncertainty, "Dice are relatively simple, cards a bit more complicated, but we can know all of the odds with them in advance. Genuine uncertainty is different. This occurs when we don't even know the possible outcomes in advance, let alone their probabilities. Genuine uncertainty occurs in complex systems, where lots of actors interact over time."[1]

The role of leadership is to optimize and champion an organization's performance in whatever environment exists. In times of uncertainty this increases the pressure on the leadership team to confirm a vision for the organization and to rally its employees and customers around that vision. In the absence of visible direction — in times of uncertainty —the organization could appear, and worse, feel, rudderless.

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The uncertainty freeze

Many remember the uncertainty preceding the passage of the ACA in 2010, and then again, the uncertainty during the period leading up to the Supreme Court ruling the following summer. Some organizations halted investing in large projects pending the policy clarification. Some were hesitant to plan for Health Insurance Exchanges or various market reforms until they had certain knowledge of the regulatory landscape. These organizations struggled with what we call the *uncertainty freeze:* when fear of the unknown freezes business planning and activity.

During this time, other organizations continued business planning and readiness

[1] Tim Kastelle in "Few People Understand the Difference between Risk and Genuine Uncertainty" Business Insider, March 27, 2013. (http://www.businessinsider.com/difference-between-risk-and-uncertainty-2013-3)

> The uncertainty freeze, however, is not inevitable. In fact, there is a very effective, low-tech intervention that is sure to help organizations move through periods of uncertainty: scenario planning.

for doing business in a new regulatory environment. When the fog cleared, those organizations frozen in uncertainty found themselves behind competitors who continued to plan and invest, and who charted a path forward.

It is worthwhile to note that many organizations that dove early into Health Insurance Exchanges took early risks and some lost a great deal of money. This is a risk anytime the regulatory landscape is shifting. That said, the ACA was far-reaching legislation with significant regulatory impact, and the Exchanges were a small portion of the law. The insurance, provider, pharmaceutical, and vendor markets all shifted to comply with the full body of the legislation as well as move forward competitively in the new market dynamics.

Now the industry faces another shock that may replace, adjust, or retain the ACA as well as initiate new changes of dramatic import. This shock has led many in healthcare, who are already weary, to express alarm about how to move forward.

The uncertainty thaw

The uncertainty freeze, however, is not inevitable. In fact, there is an effective, low-tech intervention that is sure to help organizations move through periods of uncertainty: scenario planning. In scenario planning, a company considers discrete potential future states and then explores potential or possible business responses to each.

There are an infinite number of future scenarios and planning for each one would be an exercise in futility. Effective scenario planning requires the ability to filter through the various levers to select those that are most important for an organization. Examples of levers could include:

- National political environment
- Economic conditions
- State regulatory environment
- Competitive market
- Stakeholders responses
- External trends
- Internal factors

Next, the strategic planning team assembles three to four comprehensive views of the future state. These views are representative of certain directions, even perhaps extreme versions of them. Depending upon the complexity of the organization, this could be done at a global level, or by line of business (e.g., Medicare, Medicaid, Commercial Group, Individual, etc.)

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The leadership is then responsible for defining a path for the company under each of these visions of the future. It's important to fully embrace each future state and identify the optimal business response/s. In some cases, the course will be obvious; in others, various potential paths will force the organization to consider its future direction and identify an intended course.

Once the scenarios are drafted, this is when the magic happens:

1. Even across very different future states, there could be a common set of infrastructure or strategic investments that make sense. This enables an investment strategy that is less risky.
2. Scenario planning can provide insight into how to be more proactive with trade associations and lobbying efforts to drive policy toward a particularly desirable scenario.
3. Scenario planning is likely to improve executive decision-making. As Woody Wade suggests in his book, Scenario Planning, "The key benefit of the process is therefore not that it reveals tomorrow's deep mysteries to you. Alas, the unknown will remain unknown. Rather, what scenario planning does do is open your eyes to different ways the future might (i.e., *could)* develop, and with these insights, you're more likely to make more flexible, more thoughtful, and *better* decisions today."[2]

The scenario planning process is then updated and revisited as new information becomes available.

Getting started

Many organizations intend to pursue scenario planning but fail to formally initiate it or carry it out. Executives often gather information but fail to assemble it in a useful framework so that it can be applied in their decision-making. Sometimes there are many different versions that are not synthesized into a common, cohesive understanding. This can exacerbate the sense of uncertainty rather than aligning the organization around a common framework for managing the unknown.

Taking the additional step to formalize the process allows an organization to increase

[2] Wood Wade in Scenario Planning: A Field Guide to the Future, by Wade & Company, 2012, p. 10.

its confidence as it maneuvers through today's uncertain environment.

Getting started includes the following steps:

1. Assemble a strategic planning team empowered to lead the organization.
2. Identify an owner to drive the process; it can also be valuable to engage outsiders to bring in external perspectives and guard against Groupthink.
3. Gather inputs from various sources, including networking with colleagues, leveraging trade groups and associations, and monitoring media.
4. Define potential scenarios, focused on the critical levers for the organization.
5. Communicate the output across the organization so that it can be used in prioritization and department level decision-making.
6. Meet regularly to update scenarios and your business response.

It's important to keep the process agile, so that the scenarios and direction can shift with the times. The scenarios are also an effective tool for engaging a board in setting direction for the company.

As your organization considers next steps in business planning, assess whether your business leaders share an understanding of the regulatory landscape and the steps your company needs to take to optimize business moving forward.

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When the situation gets uncertain, the tough get scenario planning.

Nancy Wise has focused her career on pushing the boundaries on healthcare. She is the co-founder of Spring Street Exchange, an organization focused to transforming healthcare toward value and with the consumer at the center.

Stephen Goldstone has spent his career helping health systems and heath insurers to carve new paths forward with creativity and fiscal responsibility. He is currently an interim executive and advisor to leadership teams.