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IMPROVING PERFORMANCE AND BUILDING CAPABILITIES DURING TURBULENT TIMES

KEY STRATEGIC AND OPERATIONAL LEVERS FOR HEALTHCARE PROVIDERS



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For additional information or further discussion related to this report please contact the authors:

George Sauter 916.712.5433
Director gsauter@chartis.com

Ethan Arnold 617.797.6965
Managing Director earnold@chartis.com

Matthew Cook 215.870.4064
Principal mcook@chartis.com

James Karpook 305.610.6542
Principal jkarpook@chartis.com

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Improving Performance and Building Capabilities During Turbulent Times:

Key Strategic and Operational Levers for Healthcare Providers

Authored by:

George Sauter, *Director*, **Ethan Arnold**, *Managing Director*,
Matthew Cook, *Principal*, and **James Karpook**, *Principal*

As the provisions of healthcare reform are phased in over the next several years, many hospitals and health systems will continue to be challenged to reduce costs while also experiencing higher levels of payment risk. Most providers will need to develop and execute a broad and diverse range of short term initiatives to meet these challenges while continually repositioning their networks for long-term success.

Providers in different local markets will be affected at different rates, but their ability to thrive in these new times will require a focus on four key strategic and operational levers:

- **Cost management:** providers must reduce unit costs through process innovation, reduced variation, and efforts to leverage scale and rationalize capacity.
- **Care management:** concurrently, providers will need to manage utilization and improve efficiency by reducing clinical variation, building innovative and lower cost multi-disciplinary care delivery models, and implementing new health management protocols.
- **Network management:** efforts to align providers must coordinate throughput across sites of care while ensuring access to the most appropriate settings to optimize outcomes and overall population health.
- **Population health management:** providers must expand their ability to manage populations across the continuum of care by developing medical homes, deploying EMRs and other advanced technology enablers and data aggregation tools, and implementing more sophisticated risk management capabilities.

The operations improvement agenda required to build and execute these four strategic and operational levers will be extremely challenging for many providers. To be successful, organizations will need to apply a comprehensive understanding of local market conditions to identify and execute priority actions that deliver financial improvements while building important service capabilities that reflect future market and economic conditions.

Forecasting a Timeline for Change – A Framework for Market Evolution

For providers, the need for near-term financial improvements while building essential capabilities for future success will require best practice levels of operating performance as well as investments in new, innovative care delivery models. Any plan must result in cost reductions in the near-term while positioning the organization to take on more risk in the future including, at a minimum, bundled payments.

Understanding local market conditions and trends is the first step in developing a strategic approach to operations management. Regional market conditions for health-care providers will continue to evolve unevenly across the country. However, each stage of market evolution will be characterized by a dominant payment mechanism as outlined below. (Fig. 1)

Figure 1. Stages of Market Evolution



Stage I markets are dominated by traditional “fee-for-service” payment mechanisms, with insurance reform driving increased access and reduced effective funding. Providers in Stage I must optimize performance based on current conditions while laying the foundation for future change.

In Stage II markets, payment reform drives price reductions, with increased prevalence of bundled payments, reimbursement linked to outcomes, and some shared risk arrangements. Providers in Stage II must build capabilities that allow them to transition to Stage III. While cost management will continue to be essential, care management and network management capabilities will also be critical for providers to succeed while preparing for new benchmarks in delivery system reform.

In the final phase, Stage III markets will evolve as payment reform drives continued price reductions, pushing a much greater degree of medical risk to providers (most likely organized within some form of an accountable care organization). This will in most cases include a shift to some form of capitation. In this stage, the ability to manage the health of populations, with a focus on patient segmentation and appropriate resource allocation, will be essential.

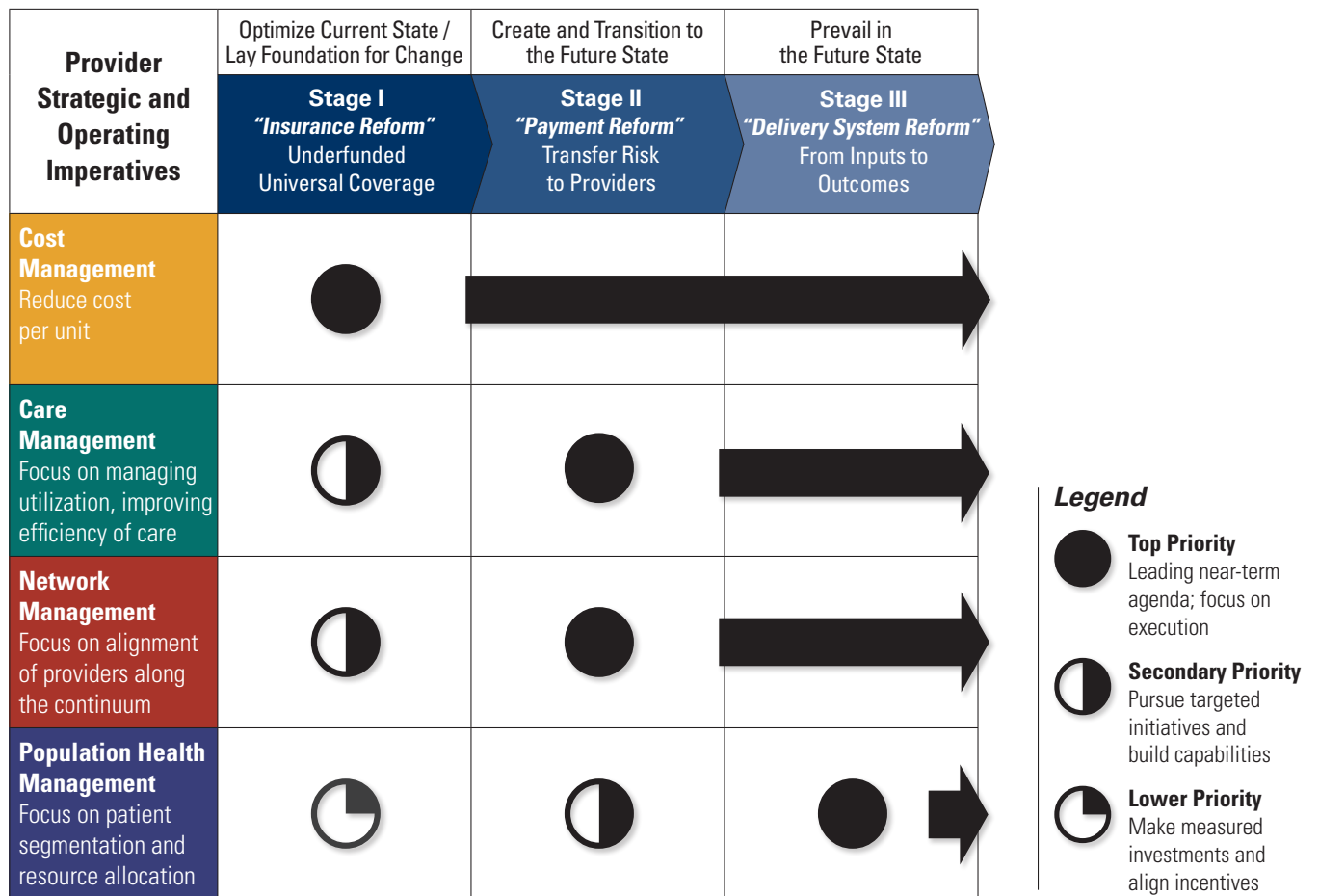
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The Optimal Sequence for Strategic and Operating Imperatives

The most effective strategies will integrate an understanding of market evolution with strategic and operating imperatives. Most organizations competing in Stage I markets today must make cost management a priority. With a foundation of progress in cost effectiveness established, providers will then need to position improvements in care and network management as top priorities as payment mechanisms evolve and providers are required to assume more risk. In Stage III, providers must have the elements in place to operate at “best practice” levels in cost, care and network management, while at the same time embracing broader strategies in population health management. (Fig. 2)

The most successful providers will tailor their operations management to reflect the dominant payment mechanism prevalent within each stage of market evolution.

Figure 2. The Chartis Group Market Evolution Framework



The most successful providers will tailor their operations management to reflect the dominant payment mechanism prevalent within each stage of market evolution. The strategic development of operations management priorities will enable providers to meet increasingly challenging margin pressures while building enduring capabilities.

Targeting High Impact Operational Improvements at Each Stage

In targeting operational improvements, strategies and tactics must be based on strategic objectives and the stage of market reform. Tactics employed will reflect a continuum; regardless of the stage of evolution, providers must focus on managing in the prevailing environment while preparing for the future. In each stage, providers will be required to establish essential foundational elements for action in the subsequent stage, ultimately building the capabilities needed in Stage III to manage population health. (Fig. 3)

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Figure 3. Operational Improvements at Each Market Stage

Market Stage Provider Imperative	Stage I	Stage II	Stage III
	<i>“Insurance Reform”</i> Underfunded Universal Coverage	<i>“Payment Reform”</i> Transfer Risk to Providers	<i>“Delivery System Reform”</i> From Inputs to Outcomes
	Optimize Current State & Lay Foundation for Change	Manage Care Delivery Across the Continuum	Manage Care Across a Defined Population
Cost Management	<ul style="list-style-type: none"> ▶ Manage core processes at best practice levels ▶ Take full advantage of scale in shared services ▶ Manage service lines to ensure standard work processes at all sites 	<ul style="list-style-type: none"> ▶ Increase ambulatory capabilities to reduce costs, reduce readmissions ▶ Rationalize capacity ▶ Develop lower-cost sites of care within the system 	<ul style="list-style-type: none"> ▶ Aggressively consolidate clinical services ▶ Expand development of specialized sites and units
Care Management	<ul style="list-style-type: none"> ▶ Target utilization effort on sites/payers ▶ Reduce clinical process variation ▶ Build multi-disciplinary care models 	<ul style="list-style-type: none"> ▶ Manage utilization across continuum ▶ Expand lower cost care models (e.g., laborists, telemedicine) ▶ Engage patients in care management 	<ul style="list-style-type: none"> ▶ Implement health management protocols ▶ Increase use of mid-level providers for care management
Network Management	<ul style="list-style-type: none"> ▶ Optimize throughput site by site ▶ Develop insight into capacity management system-wide ▶ Build capability to align incentives 	<ul style="list-style-type: none"> ▶ Manage health system patient throughput ▶ Actively direct patients to lower cost settings ▶ Build capabilities to deliver care outside of I/P setting 	<ul style="list-style-type: none"> ▶ Organize and manage delivery system resources to optimize population health ▶ Build home setting capabilities
Population Health Management	<ul style="list-style-type: none"> ▶ Deploy EMR & other technology enablers ▶ Define medical home & condition-specific demonstration models 	<ul style="list-style-type: none"> ▶ Expand implementation of EMR across sites ▶ Develop disease state management capabilities ▶ Accelerate development of medical home 	<ul style="list-style-type: none"> ▶ Develop fully integrated EHR across all sites ▶ Expand medical home development ▶ Implement sophisticated risk management capabilities

Organizational Alignment and Supporting Systems

Lasting improvements can only be achieved when a provider organization's strategic, operational, and organizational goals are aligned to support long-term success. To position an organization for effective implementation of structural change, leadership must establish a solid foundation based on several key drivers:

- a shared vision of future organizational requirements, and a common, broadly supported agenda for change;
- medical staff and leadership incentives that are aligned with those of the overall health system. Executive and management performance incentives must migrate from department-based rewards (e.g., optimizing the bottom line of individuals or departments) to incentive-based recognition driven, at least in part, by system-wide performance goals; and,
- the use of consistent, integrated management performance standards and review processes to ensure greater alignment of system, entity, and individual performance goals. This will increase accountability while helping to identify and nurture top performers within the organization.

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The Right Strategy for an Uncertain Future

While the details and ultimate impact of healthcare reform remain unclear, the evolution of markets and the implications for providers are predictable. With the inevitable transformation of the payment system, the strategic and operational priorities outlined in the Market Evolution Framework will enable healthcare providers to achieve improved margins at every stage while continually positioning them for future success. When combined with a higher degree of organizational alignment, the result can be a system that is designed to deliver care and manage health in the most efficient and effective service model, including more rational allocation and higher utilization of scarce resources. This formula positions providers operating in any market conditions and under any healthcare financing models for solid and sustainable success in the years to come. 🌐

A brief description of the application of the Market Evolution Framework to a multi-site regional health system appears on the following page.

CASE STUDY

Application of the Model: Multi-Site Regional Health System

A leading regional health system with multiple facilities within a major metropolitan market recently developed plans to significantly improve performance and lay the foundation for operating as a tightly integrated health system. While currently in a Stage 1 market, this client was preparing in advance of impending market changes to accept a greater degree of risk within its key service lines. The health system engaged physician and administrative leaders from each major service line to review performance data and develop improvement plans based on local opportunities and best practice operational strategies (as shown in *Fig. 3*). The most significant near-term improvements included physician-led restructuring of clinical practice guidelines for several key medical conditions, consolidation of several high-acuity services to a single location, and implementation of a system-wide patient transportation system. Longer term plans include using teams of specialists and primary care physicians to develop care guidelines for patients with life-long diseases. In accordance with the expected local market payer changes, leadership used the Market Evolution Framework (*Fig. 2*) to stage subsequent plans over a 36+ month period. Using this approach, the health system was able to appropriately prioritize and fast-track the development and implementation of operational improvement plans, resulting in as much as a 35% improvement in financial performance within the major service lines. Key health system clinical leaders are continuing to use this framework and approach and are proceeding with development of a bundled pricing option to pilot.

Boston

60 State Street
Suite 700
Boston, MA 02109

Chicago

203 N LaSalle Street
Suite 2100
Chicago, IL 60601

New York

140 Broadway
46th Floor
New York, NY 10005

San Francisco

1 Market Street
36th Floor
San Francisco, CA 94105

877.667.4700
www.chartis.com