The Next Strategic Imperative: Rethinking Revenue Cycle Transformation

The Revenue Risk/Opportunity Gap is Widening

Since the inception of modern healthcare financing, finance departments have played an incredibly valuable role to ensure the clinical enterprise receives the funds to which it is entitled for the services provided. While a seemingly simple concept, decades of healthcare financing evolution have created an enormously complex and highly technical domain within every healthcare organization, where an army of administrative experts manages the highly-interconnected processes of the modern revenue cycle. These teams have become accustomed to the constant state of flux as regulations change and new contract terms are created, ostensibly in an effort to more fairly reimburse providers.

However, the pure volume of change to the healthcare industry over the past several years has placed an unprecedented burden upon revenue cycle operations to adapt, absorb and conform to new realities. The iterative changes, which most revenue cycle operations are structured to manage, continue unabated. Additionally, revenue cycle operations across the nation face ever-increasing pressure to adapt, as the healthcare organizations they exist within move to position themselves in the rapidly evolving healthcare context, complicated by new forces such as:

The majority of revenue cycle operations models are not well suited for today’s realities.
The regulatory “alphabet soup” of ACA, MU, ICD-10, MACRA, MIPS, ACO, and VBC;
The rapid consolidation of health systems and physician groups, creating entirely new lines of business for which revenue cycle operations are now accountable;
Increased payor complexity (i.e., multiple contract types and new reimbursement vehicles) and new pricing algorithms; and
The rise of high deductible health plans and increased patient financial responsibility.

For many organizations, the tidal wave of change in a relatively short period of time has made it even more challenging to manage — let alone adapt and improve — the most fundamental attributes and indicators that drive performance. Within provider organizations, senior leadership has been appropriately focused on enterprise strategy development and execution, with emphasis on provider consolidation, EHR implementation, physician alignment, population health and consumerism. Concurrently, investments to support revenue cycle transformation have been neglected in most organizations. As a result, the majority of revenue cycle operations models are not well suited for today’s realities. It is akin to asking a manufacturing plant to operate in a service economy, a horse and buggy to provide intercontinental transportation, or 8-track technology to deliver music via Internet streaming services.

Given today’s challenges, health systems must address three critical imperatives:

1. **INNOVATION**
   Health systems must embrace a necessary (and potentially disruptive) overarching evolutional paradigm shift in conventional revenue cycle practices. Driving this shift is a transformational cultural and environmental change centered on entrepreneurialism and creativity. Such innovation helps to avoid becoming obsolete and creates the ability to nimbly scale to known and unknown headwinds.

2. **INVESTMENT**
   Strategic investments must be made in automation, technological advancements and a robust recruitment and retention program for highly motivated, team-centric and “Lean-savvy” talent. Such investments run counter to short-sighted cost containment exercises by demonstrating ROI and recognizing more significant longer-term sustainable reduction in the cost to collect. This ultimately increases net patient services revenue and drives efficiencies.

3. **INTEGRATION**
   Health systems must move beyond their current view of revenue cycle as a cost center. It is essential to create a holistic governance model that oversees the full integration of revenue cycle, clinical and operational workflows that are truly aligned with patient-centric processes and go above and beyond expected standardization and centralization programs and efforts. This structure is necessary to avoid being “out-gamed,” outnumbered and at the mercy of payors’ adjudication bureaucracies and denial algorithms.
New Requirements for the Revenue Cycle Business Model

Successfully addressing these imperatives will demand a revenue cycle that is fundamentally different. The key question for health system leaders is, “What can be done within the revenue cycle space to keep up with the current operational demands, while simultaneously positioning us ahead of future demands?” In order to be successful, healthcare providers will need to establish an integrated view of the organization’s entire revenue ecosystem.

The Healthcare Provider Revenue Ecosystem

1. Strategic Drivers
- Volume changes as a result of new competition
- Demographic changes
- Market changes
- Volume setting shifts
- Physician volume changes
- Referral patterns

2. Payor Contracting Drivers
- Contracting terms and strategy
- Rate degradation
- Payor shift
- Performance to value-based demands
- Underpayment analysis

3. Clinical Operations Drivers
- Scheduling quality
- Capacity and throughput
- Charge capture accuracy
- Documentation accuracy
- Utilization management
- Physician alignment
- Bed management and patient status

4. Revenue Cycle Operations Drivers
- Registration quality
- Financial clearance quality
- Charge capture management
- HIM and coding accuracy
- Business Office performance
- Technology infusion
- Point-of-service collections

With this broader framing of the organization’s revenue ecosystem, it becomes clear that results achieved within the revenue cycle operations group are inherently constrained by their alignment and integration with other “upstream” drivers. In order to maximize enterprise results, it is essential to assess the organization’s alignment across all drivers of the revenue ecosystem.

Strategic Drivers

While revenue cycle performance has not traditionally been directly tied to strategic indicators, it is, at the highest level, the result of strategic decisions made by the organization, both intentionally and unintentionally. Changes in key strategic drivers of revenue such as payor mix, service mix and site-of-care are often described as “uncontrollable” factors. Yet, in most cases, with a more thorough understanding of the underlying causal factors, a more tactical — and inherently “controllable” — cause is revealed along with pathways to improving revenue performance. By understanding and addressing strategic drivers, a more enduring solution can be developed and implemented to drive revenue cycle improvement.
For example, the growth of a health system’s ambulatory network is a common strategic imperative. However, given the new restrictions to hospital-based reimbursement in the ambulatory setting, many providers notice significant cannibalization of their revenue streams as their ambulatory strategies successfully decant volume away from their main campuses. By strategically assessing the service delivery mix and reimbursement, and carefully deploying services in light of the effects of cannibalization, revenue losses can be minimized and growth can readily offset site-of-care losses. Strategic initiatives should be continuously monitored, reviewed and adjusted as system-wide impact is more clearly understood. This enables course correction to address possible negative outcomes in other areas or additional strategic opportunities.

Payor Contracting Drivers

With an understanding of the strategic drivers’ roles in the health system’s revenue performance, it is critical to understand the system’s approach to its arrangements with payors, both public and private, next. Both the internal consistency of payor contracting approaches, as well as the alignment of payor models with the strategic revenue drivers must be considered. It is not uncommon for providers — in an effort to address the pressing needs of one payor — to unknowingly impact (often negatively) their revenue generation/realization with another payor. The impact of contracting driver variance can have an enormous effect on top-line revenue potential, whether the result of unaligned managed care contracting windows creating different performance mechanisms among commercial payors, or the directives prescribed by Medicare or Medicaid creating misalignment between government and commercial payors.

For example, CMS’ value-based purchasing has increased the focus of many providers on a subset of inpatient quality metrics, such as length-of-stay and readmissions. While it is difficult to argue that these types of improvements should not happen, they can have a catastrophic effect on revenue in organizations that have not aligned their commercial contracting models before initiating such changes.

Clinical Operations Drivers

Additionally, many organizations regularly assess their clinical operations as an area of potential cost savings, but they also have material revenue growth potential. Providers should consistently and systemically evaluate the effectiveness of the clinical operation to identify and execute on opportunities to increase revenue generation from existing clinical assets instead of solely reducing clinical operations expenses during the annual budget process. Many health systems have created immediate top-line growth through clinical operations improvements. They have done so by increasing throughput across a health system’s capital intensive assets, deploying innovative care models that allow clinical staff to effectively manage more patients in the appropriate setting and by the appropriate clinician, or ensuring that clinicians are accurately documenting care to ensure appropriate reimbursement. Further, when considered in conjunction with the strategic and contracting drivers, clinical operations increasingly becomes the place where the “rubber meets the road” with respect to ensuring the achievement of organizational and contracting strategy performance.

For example, while many organizations have instituted a clinical documentation improvement (CDI) program, the recent ICD-10 implementation along with regularly scheduled changes/upgrades in the EHR may have caused disconnects, decreasing the case mix index. In addition, new reimbursement models put a premium on solid documentation and coding in the ambulatory care setting to ensure accurate adjustment risk factors are in place, placing further emphasis on the potential value of expanding the CDI program.
Revenue Cycle Drivers

Given the “new world” realities, it is essential that the revenue cycle operates as more of a value-add business enterprise and intelligence agent driving and enabling: hybrid reimbursement model operations; process redesign supporting new clinical models; technology integration across all domains; and business intelligence guiding real-time decision support via feedback loops. The increasingly critical interconnectedness of strategic, contracting, clinical and revenue cycle agendas requires these areas work in harmony with one another, enabling continual improvement and alignment between theoretical objectives and actual performance. At the same time, these new requirements for success must be developed while maintaining the “old world” operational requirements: to appropriately and compliantly schedule, register, charge, code, bill and collect for patient encounters in an efficient, effective, patient-centric and compliant manner. Nevertheless, “new world” realities require reframing the model to bridge the gap between today’s realities and today’s demands, and to do so without significant incremental resource investments.

For example, most health systems do not have a revenue cycle model that is sufficiently flexible primarily due to technology constraints, decentralized functions, non-standardized processes and limited staff/personnel bandwidth.

The Challenge: Defining the Right Business Enterprise Model for Your Organization

Historically, strategy, payor contracting and clinical operations have taken priority over revenue cycle operations. In many organizations, the linkage with strategic, payor and clinical drivers to revenue cycle operations is an afterthought; something “those other people” are supposed to take care of while the rest of the organization focuses on higher priorities around care delivery, growth or payor negotiations. However, all of these factors must be considered and coordinated to ensure the capture and collection of the entirety of the revenue to which the provider organization is entitled. Failure to do so virtually guarantees organizational misalignment, and as a result, lost financial opportunity.
Healthcare provider organizations do not exist first and foremost to have a good revenue cycle operation. As a result, when faced with the daunting challenge to drive real transformational change across the revenue cycle, organizations find they are boxed in. They have pay scales tied to job descriptions that are aligned with yesterday’s requirements and best-of-breed technology that complicates the capability and capacity for nimble response to change. They are restricted by new technology implementations that did not sufficiently include business model/Lean process reengineering on a grand scale. Many providers' revenue cycle leadership ranks are mostly held by domain subject matter experts who have not benefited from the development of an entrepreneurial skill set or perspective, and they lack sufficient capital to invest in the revenue cycle beyond incremental improvement endeavors. The difficulties to truly change in this space cannot be understated. That said, it remains imperative that organizations evaluate their current state and strategically define the requirements for future state revenue cycle performance in their markets. This process should include a clear delineation of the strategic requirements, payor contracting goals, clinical and operational model considerations, technology requirements and plans, market growth and retention, and patient experience goals for the next five to 10 years — customized and applicable to the regional market. Considering, and subsequently defining, the requirements for the revenue cycle in this context will enable a better discernment process for what it will take to truly realize revenue improvement for the foreseeable future.

A Call to Action: Performance will be Sub-Optimized Until a New Paradigm is Established

Health systems must prepare for the uncertainty and financial implications of the changing regulatory environment to maintain their leadership and market positions, while achieving financial viability to continue to perform their organizational missions. Given the relatively low operating margins realized industry-wide and the anticipated continued downward pressure on reimbursement, net revenue declines are strategically unsustainable without significant changes to an organization’s very composition. Even for those organizations currently experiencing revenue growth, the uncertainty on the horizon and the associated impact on their bottom line, affects their ability to fund strategic imperatives for growth, population health, consumerism, and improved and evolving technology. The revenue cycle has always played a critical role in a health system’s financial health, but as providers prepare for the changes that lie ahead, adopting this new, broader orientation around the entire revenue ecosystem is an essential step.

While it may be difficult to predict the future in healthcare delivery in these uncertain times, it is vital that revenue cycle leaders act now to address the three critical imperatives in order to optimally position their organizations for success. By thinking differently and holistically about the revenue cycle, organizations will be better equipped with complex, integrated and interoperable systems that work in an unprecedented fashion to move forward with strategy and growth opportunities. Now more than ever, leaders should look beyond the traditional revenue cycle functional walls, and by doing so, they can preserve revenue and eclipse performance through growth and targeted strategic improvement.
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