

## Separating Fads from Facts

BY NATHAN S. KAUFMAN

AS A STRATEGIC ADVISOR TO MORE THAN 60 health systems and several medical groups, I have been able to identify the common drivers of peak performance in these organizations. Unfortunately, I have found that much of the industry literature upon which many health care organizations rely to improve their performance focuses on fads, not facts.

High-performing health care organizations and their boards understand that good business outcomes result from an analysis based on empirical evidence, not from following the latest fad. Boards that routinely request evidence to support the decisions they are being asked to make will be in a better position to separate these fads from fact. Following are some currently prevalent examples. **Fad: There is a one-size-fits-all set of simple strategies to position hospitals to succeed in the future.**

**Fact: Everyone is looking for answers.**

The health care industry is in transition. Hospitals and physicians have to learn new competencies in order to succeed in the new environment. These key competencies include employing large numbers of primary care physicians and specialists; demonstrating measurable quality; and managing service lines. The ability to develop key strategies successfully is specific to each organization's market. Most key strategies require frequent corrections in midcourse.

**Fad: Quality and patient safety will determine a hospital's success over the next three to five years.**

**Fact: Effective contracting and a high-**

**performing revenue cycle are today's drivers of success.**

Health systems that are achieving peak performance all have top-of-market payer contracts and exceptional revenue cycle results. High revenue per unit of service is driving the ability of health systems to work through and eventually address their critical issues. Achieving high payer revenue per unit:

- Fuels investment in quality infrastructure, physician employment and service line development.
- Funds physician recruitment.
- Funds the deficit created by most physician-hospital joint ventures.
- Compensates for losses from competing physician-owned ventures.
- Provides funds for ever-increasing physician demands for payment to take emergency department call and clinical department head positions.

Some hospitals do not possess the expertise to negotiate managed care contracts effectively, and an even greater percentage lack the ability to maximize their revenue cycle performance. Rather than recognizing the need for help in these highly complex areas, chief financial officers (CFOs) may regard the need for outside assistance as an admission of failure and block any outside support.

This "CFO Paradox" means that the very people who should be exploring every opportunity to enhance the health system's revenue are standing in the way of progress. Remember, net income/cash provides the fuel to drive a health care organization toward improving quality.

And net income/cash is maximized through effective managed care contracting and optimizing the revenue cycle.

**Fad: Hospitals can "shrink" to profitability.**

**Fact: Expense control is necessary but not sufficient.**

Hospitals that try to reduce their expenses to achieve greater profitability soon reach a point of diminishing returns. A system that focuses primarily on expense control (rather than revenue enhancement), will have difficulty recruiting staff and will experience physician dissatisfaction, as well as lose the technology "arms race." These problems will eventually result in market share decline.

**Fad: Consumer-directed health care and transparency will be the key drivers for health care industry change.**

**Fact: Consumer-directed health care and transparency are overrated.**

Thus far the evidence (not the anecdotes) indicates that consumers will shop for the lowest-priced outpatient service unless their physicians direct them to a specific provider.

There is no evidence that consumers will change their purchasing behavior for inpatient and emergency care. The shortage of both beds and physicians is becoming critical, and this will have a greater impact on provider selection than "consumerism." In many markets, consumers will be lucky if they can find a bed and/or physician when they need one.

**Fad: Joint ventures engage physicians**

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*and improve strategic position.*

**Fact: Most joint ventures enhance physician income, but hurt a hospital's bottom line.**

Hospitals have more market power than do freestanding providers. Therefore, managed care companies reimburse a hospital significantly better than they reimburse a freestanding provider, even if that provider is partially owned by a hospital. In addition, a joint venture typically duplicates the hospital's overhead, adding additional cost.

Commenting on joint ventures, some CEOs have stated that it is better to own 50 percent of something than 100 percent of nothing. As a result of dictated managed care rates and duplicated costs, most hospitals end up with 10 percent to 20 percent of the income they originally generated in a service line in which they have created a joint venture. In most cases, a joint venture is not a strategy to boost performance, but rather a stopgap to retain a relatively small percentage of a service line's income in exchange for often fleeting good will from select members of the medical staff.

Health care is an industry that routinely engages in "systematic self-deception" and where the presumption of knowledge often has done far more damage than true ignorance. Successful health care providers and their boards focus on the facts and avoid acting on anecdotes or strategies that sound good in theory, but that many times don't achieve positive, lasting results. **T**

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