



Health System Strategies: Making the Tough Decisions

Hospitals can further affordability by focusing on their cost structures and operations

By Nathan S. Kaufman

The leaders of health systems must focus on a handful of crucial strategies to ensure optimal performance of their organization. There are no simple solutions to the complex problems facing health care providers. It is essential that boards and executives focus on what is important now and not be distracted by voices offering cautionary tales and panaceas.

John Adams said, “Facts are stubborn things.” The fact is, the current health care system is unsustainable. Our nation’s health care system will only become mathematically sustainable if total reimbursement and utilization rates decline. To prepare, health systems must focus on both materially reducing their

cost structures and re-examining their strategies and operations.

Stepping stones

The following are some crucial areas on which health systems need to focus to increase affordability, now and in the future:

- **Encourage practicing physicians to support clinical initiatives and develop new competencies.** It is common for leaders to express their system’s commitments using the pronoun “we”: “We are committed to reducing the variation in care.” Practicing physicians are essential to the success of a clinical initiative. In addition, if the practicing physicians do not have the competency to implement a clinical strategy — for example, providing

care within a fixed budget — that strategy will fail. It is better to develop new competencies and be late with implementation than to lack competence.

- **Address underperforming facilities and services.** A health system cannot afford the cost of underperforming facilities and services. Services and facilities that operate at a significant deficit must be objectively evaluated. There is no evidence that a hospital with weak utilization can materially improve. Leaders need to find ways to transform or eliminate underperforming facilities and services so that funds can be redeployed to support facilities and services organized around patient needs, thus minimizing suboptimal utilization.

● **Implement a comprehensive access strategy.** Access is a primary determinant of patient choice, satisfaction and utilization. Comprehensive access includes reasonable travel distances, a timely appointment and short wait times to see a provider. Lack of access is a primary reason that patients seek care elsewhere. Rational distribution of ambulatory services, especially urgent care centers, is essential. A crucial component of accessible, patient-centered care is extended and weekend hours for primary care and pediatrics.

● **Reduce cost per unit and cost per encounter to prepare for value-based care.** Cost is an important component of the value equation. There are six primary cost drivers in a health system: personnel, supplies, utilization, capital deployment, clinical variation and financial systems. These cost drivers must be measured in real time and compared with industry best-practice benchmarks. Deficiencies must be corrected immediately. Health systems should adopt audacious goals for managing costs and then measure progress. Finally, when deploying capital, every investment must demonstrate an incremental return in value.

● **Manage employed and contracted physicians effectively.** In most health systems, a significant percentage of professional services are provided by physicians who are employed and/or receive a stipend. The industry best practice for managing these affiliated physicians is to have competent, experienced leaders, shared governance and an efficient, effective infrastructure. Health systems must provide timely, accurate data and feedback profiling each physician's performance, and physician leaders must hold these affiliated physicians accountable. A portion of the compensation for employed and contracted physicians should be at risk for patient satisfaction, access and other system priorities.

Many leaders classify the deficits associated with employing and contracting with physicians as "losses." But the deficit generated by the office practice of a highly productive employed physician who provides excellent care and meets the needs of the health system is not a loss. Rather, it is a worthwhile



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investment. Deficits resulting from low productivity, high overhead, poor patient satisfaction, underperforming financial systems and poor service are true losses that must be addressed and corrected.

● **Develop a high-value, data-driven, clinically integrated network.** The delivery of value-based care requires an integrated network of physicians. Cost and quality generally cannot be improved when physicians function independently. A clinically integrated network includes employed physicians, independent physicians and organizational providers, all working together to provide high-quality, cost-effective, coordinated care. Best practices for clinically integrated networks include governance shared with practicing physicians; providers who use the same electronic health record; a robust set of clinical guidelines; broad geographic coverage; and a sophisticated infrastructure.

These networks require radical collaboration among multiple independent physician groups and the health system. It takes many years for a network of providers to develop the competency to

provide high-quality, cost-effective care within a fixed budget. Health systems with a high-functioning, clinically integrated network will be well-positioned for the future.

Strategic planning

Leaders of health systems must define their crucial strategies for the next three to five years based on both national and local trends. Boards must require leaders to identify and measure key performance indicators, report the results and take corrective action when warranted. Accurate data neutralize the emotions that can result in misguided decisions.

Successful execution of the crucial strategies requires hard work, discipline and a willingness to make tough decisions. Sometimes the hardest thing and the right thing are the same. It is better to make these difficult decisions in an orderly fashion now than to make them under duress in the future. **T**

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