

Health Systems Must Integrate and Rationalize



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Part 2





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 This paper is the second in a series of five ECG strategic perspectives on the changing dynamics of the US healthcare system.



Why Integrate and Rationalize?

Redundancy, duplication, and waste are pervasive in today's healthcare delivery system, driving up both operating and capital costs. Opportunities exist in both the administrative and clinical functions of all provider organizations, regardless of size, scope of services, and financial success. The vulnerabilities of healthcare's economic model and the intensifying pressure to demonstrate better performance in conjunction with increasing scale have led some organizations to proactively address these opportunities. The financial repercussions of the COVID-19 pandemic will compel more systems to do the same.

To achieve economic sustainability and market essentiality, we believe health systems must integrate and rationalize to enhance clinical care, optimize operations, and lower costs, ultimately focusing on the improvement of every aspect of patient care operations. While the benefits for patients and providers can be significant, reaching this future state isn't easy, which is why many organizations have been slow to start down this path.

Later in this paper, we discuss four imperatives for organizations that are looking to advance their efforts in this area. But we begin with definitions of "integrate" and "rationalize":

Integrate: To form, coordinate, or blend into a functioning or unified whole

Rationalize: To apply research-based managerial principles to make something (e.g., company, process, method of working) more effective and/or efficient, usually by combining or stopping particular activities with the appropriate workforce

For hospitals and health systems, integration might mean implementing common operational processes and workflows, adopting evidence-based protocols and clinical pathways, and approaching decision-making with a system mindset. Rationalization is more likely to centralize corporate functions or alter the scope, mix, and/or distribution of clinical services.

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Industry Trends

Increase the Urgency

In early 2020, before the impact of the COVID-19 pandemic was widely felt, several industry trends were causing provider organizations to examine the need to integrate and/or rationalize.

An Aging Population

With about 10,000 people turning 65 every day,¹ the aging of the US population will impact healthcare providers in multiple ways. Older populations have higher inpatient use rates, but they are predominantly admitted for medical as opposed to surgical conditions, and the surgical proportion declines across the oldest age cohorts. Making a margin on Medicare volume, which will account for a greater percentage of patient revenue, will require wholesale changes in clinical operations to reduce costs. The change in payer mix, with a higher proportion of government payers, will also limit the ability to use margins from commercial business to offset the losses on Medicare and Medicaid.

Regulatory and Pricing Pressures

Regulatory changes are also increasing the pressure on health systems' bottom lines. Many healthcare organizations depend on hospital-based revenue to subsidize outpatient services. Therefore, site-of-care shifts, including outpatient procedures moving to freestanding ambulatory surgery centers and the growth of digital health visits/encounters, will require providers to reexamine care delivery location options. CMS's site-neutral payment rates for clinic visits will further erode the revenue base. Consumers—particularly the 30% of covered workers with high-deductible health plans, the underinsured, and those paying for elective procedures—are doing more price shopping than ever before (although the extent to which the recent hospital pricing rule will provide price transparency benefits to consumers remains unclear).





Alternative Payment Models

Success under risk-based pricing models requires close examination of clinical and operational processes to identify opportunities to reduce unnecessary utilization, minimize clinical variation, and eliminate waste. These efforts must lower both the per unit costs of the care delivered and the total cost of care for the covered populations. Bundled payments are currently the most common model, but Medicare Advantage may be the next frontier of value-based opportunities.

Care Delivery and Workforce Changes

Due to site-of-care shifts, fewer avoidable admissions, and lower readmission rates, hospitals in the future will be occupied by high-acuity patients and those requiring complex, specialized diagnostic and therapeutic procedures. The competition for deliveries will also intensify, as the 2018 birth rate dropped to a 32-year low, and provisional 2019 data shows further declines.² Both trends will make it more difficult for some smaller hospitals and health systems to maintain sufficient volumes in certain services to meet quality thresholds. The aging healthcare workforce and projected shortages of physicians, nurses, and allied health professionals will also require health systems to rethink how and where care is delivered.

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Pandemic Implications

The pandemic has caused most hospitals and health systems to experience greater financial distress due to revenue losses from delays or eliminations in elective surgeries; lower reimbursements from patient surge volumes; and increased expenses associated with premium labor, supply costs, and overall operating spend. This margin impact will be compounded by significantly lower nonoperating investment income following record declines in stock market performance and record-low interest rates. Skyrocketing unemployment claims will also result in more uninsured patients seeking care. However, the pandemic does provide leaders with the cover to accelerate innovation and change in an industry that is traditionally slow to adapt.



Stages of the Journey

Pursuing integration and/or rationalization is difficult, as both call for examining and typically changing what is being done where and by whom. What's being changed is likely to be "the way we've always done things," which is further complicated in multihospital systems or medical groups that reflect the combination of several disparate organizations. Challenges will be both internal—culture, leadership commitment, and resources—and external, in the form of community resistance, local political pressure, and state-specific regulations (e.g., CON). Incorporating best practices in change management is an essential element of success.

There are opportunities for integration and rationalization across four broad focus areas: strategy, operations, technology, and finance. Independent hospitals and multihospital systems with the majority of their facilities in the peak or steady performer groups of ECG's Financial and Operational Health Index are more likely to pursue these opportunities as part of a multiyear plan. In contrast, the urgency is much greater for independent hospitals and health systems with multiple hospitals in the at-risk and failing performer groups of the index.

Providers across the country are at different stages on their integration and rationalization journey (see figure 1).

INTEGRATION/RATIONALIZATION STAGES



Figure 1: Integration/Rationalization Stages

Few healthcare organizations have addressed both integration and rationalization in a comprehensive manner. Most are somewhere in the middle stage, having accomplished some degree of integration, likely related to technology or finance and, potentially, pockets of operations. Others, due to their smaller size, less-complex organizational structures, and/or reluctance to face the challenges outlined above, have barely started.



Four Integration and Rationalization Imperatives

Given the trends described above, health systems should focus on the four imperatives illustrated in figure 2 to realize the benefits of integration and rationalization.

INTEGRATION AND RATIONALIZATION IMPERATIVES



1 Business Innovation

ESSENTIAL CONSIDERATIONS

- Access and scheduling
- Revenue cycle
- Data-driven decision-making



2 Unwarranted Clinical Variation

ESSENTIAL CONSIDERATIONS

- Standard clinical and operational processes
- Clinical decision support tools
- Physician engagement



3 Care Delivery Platform

ESSENTIAL CONSIDERATIONS

- One operating entity
- Physician alignment
- Clinical services rationalization



4 Capital Asset Plans

ESSENTIAL CONSIDERATIONS

- Current asset rationalization
- Adaptable, flexible new space
- Technology ecosystem

Figure 2: Integration and Rationalization Imperatives

**KEY IMPERATIVE 1:**

Capitalize on Technology Innovation for Business Tasks

For health systems to effectively manage care across the continuum and successfully compete as consumers price-shop, cost-of-care data needs to be readily accessible for internal stakeholders and external consumers.





Initial integration and consolidation initiatives at the system level have frequently capitalized on available business (i.e., back office) synergies. Next-generation improvements will focus on the business tasks of scheduling, coding, billing/collecting, and the speed of just about every aspect of a healthcare transaction.

Many health systems have already adopted integrated revenue cycle operations that centralize people and standardize processes and technology platforms across their network (e.g., physician practices, hospitals) to achieve economies of scale and improve efficiencies.³ However, recent technology innovations bring new opportunities to drive cost savings while improving the consumer experience within access and scheduling and the revenue cycle.

- **Access and Scheduling:** Digital tools allow consumers to schedule appointments and complete preregistration on their computer or mobile device, facilitating self-service options and 24/7 access. This enables health systems to streamline patient access processes across their network, eliminating excess phone calls, minimizing manual information entry, and optimizing staffing.
- **Revenue Cycle:** Artificial intelligence and robotic process automation offer opportunities to reduce redundancies and improve productivity throughout all aspects of the revenue cycle, from authorization management through payment posting. Automating these repetitive tasks allows administrative staff to focus on tasks that require complex human interaction and decision-making, such as patient follow-up customer service.⁴

Health systems migrating from a holding company to an operating company can achieve significant gains in business innovation. However, resistance to giving up local autonomy can be a big stumbling block, so adequate thought and planning is a must.

Data-Driven Decision-Making

While revenue cycle cost-to-collect data is typically readily available, these costs are only one piece of the complex healthcare cost puzzle. Clinical and financial data related to the delivery of care are essential pieces of the puzzle that are often missing. For health systems to effectively manage care across the continuum and successfully compete as consumers price-shop, cost-of-care data needs to be readily accessible for internal stakeholders and external consumers.

The results of a recent study highlighted this issue, as 90% of healthcare leaders indicated they did not have access to the information needed to do their jobs.⁵ Without the necessary data insights, it becomes infinitely more challenging to improve clinical outcomes, operations, and financial performance—and to successfully engage physicians in these efforts.

Vincent Tammaro, CFO of Yale New Haven Health, commented at the 2019 JP Morgan Healthcare Conference: *“We need to align with the evolution of consumerism and help drive affordability in healthcare. How we leverage data is mission critical to making this concept a reality. Bringing clinical and financial data together provides us with a source of truth to help both reduce the cost of care as well as reallocate our finite resources to high impact initiatives in our community.”*⁶

Investments in decision support tools, including advanced cost-accounting systems with activity-based costing capabilities, are an essential first step to establishing that source of truth. However, because extensive resources, time, and effort are required to assimilate clinical and financial data, relatively few health systems have trusted data to inform decision-making.

Harnessing robust clinical and financial data and capitalizing on technology advancements will further streamline business operations, drive improvements in processes and outcomes, and address the affordability of healthcare.



KEY IMPERATIVE 2:

Eliminate Unwarranted Clinical Variation



Some variation in clinical care is necessary to meet specific patient health needs, but diagnostic errors and overused tests, treatments, and procedures are considered non-value-added clinical waste.



Unwarranted clinical variation can be defined as resources expended in services, money, time, and/or personnel that do not add value. This variation often exists because departments across sites of care have different operational processes and workflows, there aren't agreed-upon evidence-based protocols for delivering care, and/or individual physicians use different medical and surgical supplies and patient care philosophies. While some variation in clinical care is necessary to meet specific patient health needs and preferences and can be useful in developing best practices,⁷ diagnostic errors as well as overused and/or inappropriate/nonindicated tests, treatments, and procedures are considered non-value-added clinical waste.

Foundational elements for addressing unwarranted clinical variation include standardized processes, technology, and physician engagement.

ESTIMATED COST SAVINGS BY REDUCING ERRORS AND OVERUSE IN THE US HEALTHCARE SYSTEM⁸

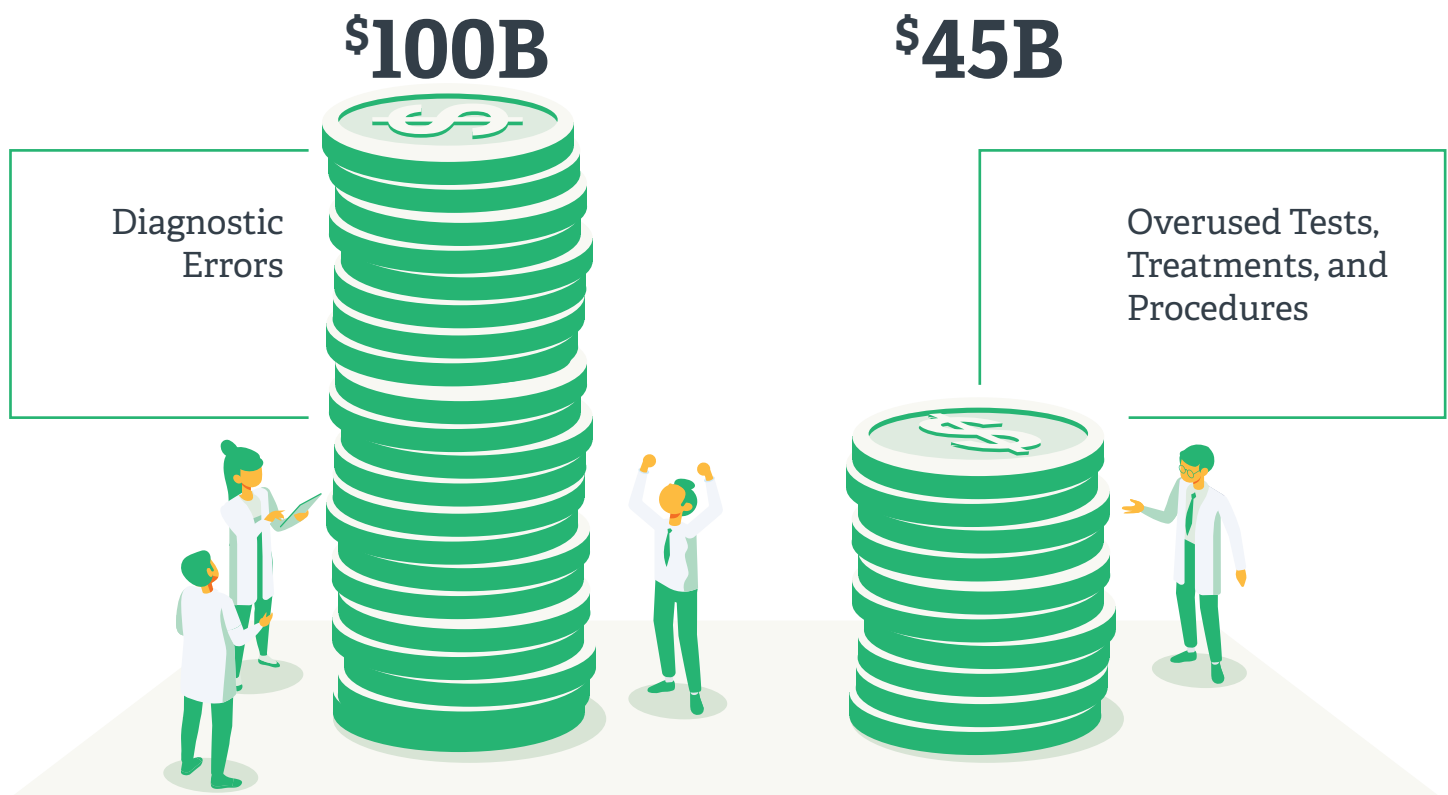


Figure 3: Estimated Cost Savings by Reducing Errors and Overuse in the US Healthcare System (in billions)



Standardized Clinical and Operational Processes

Developing and implementing uniform, evidence-based protocols and pathways across the system establishes one model of care and greater consistency across sites. The development process creates opportunities to discuss:

- Appropriateness of tests and therapies.
- Inpatient length of stay.
- Indications for different courses of treatment.
- Transitions of care.
- Site of service.

Turning episodic and siloed care into a coordinated care model improves clinical outcomes, enhances the patient experience, and reduces overall costs.

Additional opportunities for standardization typically include the following:

- **Medical Supplies:** Standardizing supply utilization can directly reduce the total cost per patient encounter, and operating rooms and procedure areas typically represent a hospital's largest cost-saving opportunities. Therefore, health system leadership should regularly speak with physicians about their preferred surgical supplies and if there are less expensive options that don't compromise patient safety. The conversations can be difficult, but the operational and financial impact can be significant.
- **Operational Processes:** The deployment of Lean approaches focused at the point of care delivery streamlines operational processes.⁹ This might include eliminating excess steps from workflows, minimizing patient wait times, and replacing manual and duplicative data capture processes.

Turning episodic and siloed care into a coordinated care model improves clinical outcomes, enhances the patient experience, and reduces overall costs.



Technology

More sophisticated decision-support capabilities enable the delivery of high-quality, cost-effective, evidence-based clinical care. Organizations are exploring how to use artificial intelligence to enable better healthcare decisions. Clinical decision support tools integrated into the electronic health record (EHR) equip clinicians with actionable, real-time clinical and financial data to make more informed patient care decisions, and alerts can help reduce unwarranted clinical variation and unnecessary or duplicative tests. Nevertheless, new technology can also drive increases in the cost of care, so an overarching technology roadmap will minimize duplication and optimize technology integration.



Physician Engagement

Without deliberate physician engagement and strong physician alignment, initiatives to reduce unwarranted clinical variation, standardize operational processes, and adopt to new technology will have limited chance of success. Physician leadership is essential for developing evidence-based protocols and guidelines, reviewing clinical and financial performance data, and holding peers accountable. Actionable data enables clinicians to improve the value of care delivered. Physician alignment vehicles, such as comanagement arrangements, can be used to formalize these efforts, and performance metrics in physician employment and professional service contracts can be designed to support targeted initiatives.

Eliminating unwarranted clinical variation, streamlining operational processes, and migrating patients to the ambulatory environment can significantly improve patient outcomes and reduce costs for health systems at any stage of the integration and rationalization journey. However, clinical integration with aligned physicians is the key to success for organizations participating in risk-based payment models.

Without deliberate physician engagement and strong physician alignment, initiatives to reduce unwarranted clinical variation, standardize operational processes, and adopt new technology will have limited chance of success.





KEY IMPERATIVE 3:

Design a Platform for Delivering and Coordinating Care across the Continuum



*Successful collaboration with
physicians enables health
systems to deliver a more
integrated and coordinated
model of care.*



The care delivery platform for an integrated and rationalized health system looks dramatically different than what is in place at most organizations today. Transitioning to this platform entails behaving as a single operating entity, achieving tighter alignment with physicians, and rationalizing clinical resources.

Operate as a Single Entity

The past decade has seen significant consolidation of hospitals and physician practices. However, most organizations do not make the tough decisions about integrating and rationalizing operations and services, so only back-office functions end up being centralized. A recent study highlighted the issue, stating “less than 30% of executives surveyed report that the M&A transactions they were involved with achieved more than half of the projected transaction efficiencies.”¹⁰ As a result, most health systems stop short of achieving many of the potential strategic and operational benefits.

Regardless of a health system’s corporate structure, functioning as a single operating entity is essential. Implementing one model of care with standardized clinical protocols and consistent operational processes will break down operational silos. In making decisions about service distribution, capital investments, and resource allocation, it is necessary to adopt a system mindset. This must be supported by a system-oriented leadership structure and aligned incentives that reward the desired behaviors.

Align with Physicians

Care delivery networks in the future will be less hospital centric, requiring enhanced coordination across the continuum. Low-acuity medical services will be managed outside the hospital or at home, and the migration of surgical procedures to nonhospital settings will accelerate. Analysis indicates that between 40% and 70% of client surgical cases will be able to be performed in ambulatory settings within five years.¹¹

To create a network in which patients receive the right care in the appropriate setting, health systems will need to achieve clinical and financial alignment with the physician community. As noted above, physician engagement and leadership is essential for reducing clinical variation and improving operational efficiencies. Deploying EHRs in community practices improves care coordination, facilitates transitions of care, and reduces duplicative tests.

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Health systems can pursue a range of formal alignment options:

- Comanagement agreements establish a coordinated, structured approach to delivering care across multiple hospitals and groups, whereas management and professional services agreements enable physicians to achieve greater clinical and financial integration while remaining independent.
- Joint ventures and other partnerships with physician-owned entities provide opportunities for health systems to expand delivery networks for ambulatory surgery, imaging, urgent care, and other services.
- Clinically integrated networks and accountable care organizations are more comprehensive and require more significant infrastructure investments. However, the interdependence and cooperation among participants optimizes care, controls costs, and ensures quality.

Successful collaboration with physicians through these and other models enables health systems to deliver a more integrated and coordinated model of care.

Rationalize Clinical Services to Optimize Resources

As it becomes increasingly difficult for health systems to meet all of the healthcare needs of their communities, more organizations will need to rethink, and potentially rationalize, the clinical services they provide. This is true for smaller health systems that lack the population base and physician complement necessary to provide certain services and for larger, multihospital systems that serve multiple geographic markets. Discussions surrounding the scope and mix of services offered at each location and the distribution of services should be informed by an assessment of the health system's clinical portfolio that weighs multiple factors, including:

- Quality implications.
- Community access.
- Market competition.
- Clinical expertise.
- Financial viability.





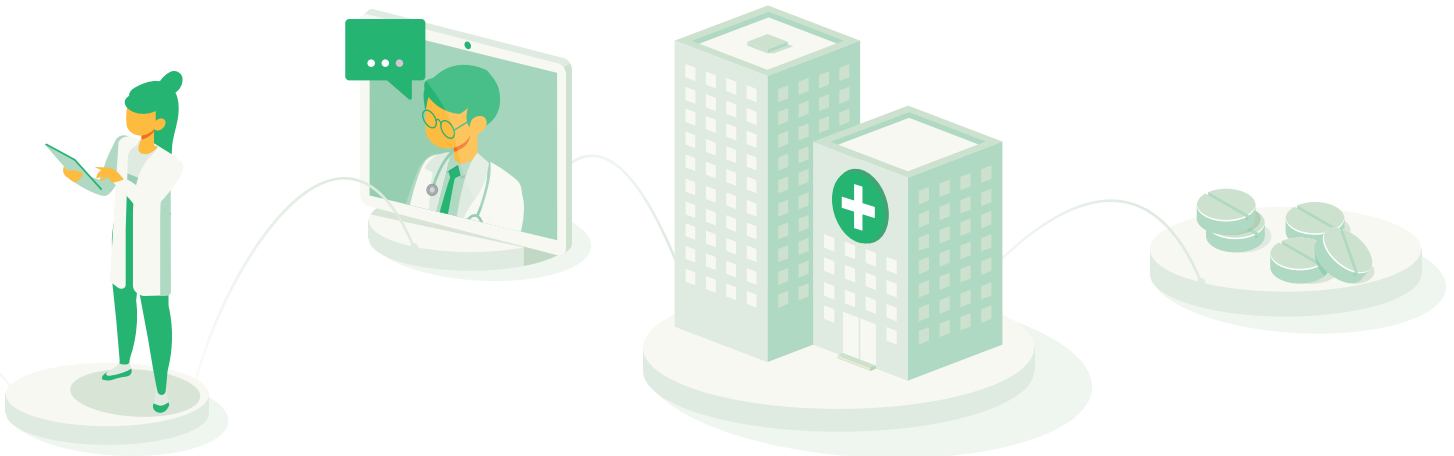
This assessment should identify the clinical services that should be centralized, colocated, rationalized, or eliminated to strategically optimize care delivery across primary and secondary markets. Consolidating services, or eliminating them entirely, are difficult decisions but may be the only way to remain viable and continue serving the community in some capacity. Bruce Meyer, MD, President of Jefferson Health stated, “If the viability of your organization is dependent on cutting service lines that don’t make money, you need to ask yourself if it is better to be here for some things or not to be here for anything.”¹²

Quantifying the value of clinical services and prioritizing their strategic importance is the easy part. Executing on those decisions is another matter. Discussions quickly become politically charged as emotions within the medical community and the

community at large run high. As a result, few systems currently conduct the clinical portfolio analysis, and even fewer move to implement the findings and recommendations. However, for health systems to optimize care delivery resources and lower the overall cost structure, the rationalization of clinical services is not optional.

Assembling the components of a care delivery network and developing physician alignment models are important steps. Without the hard work of clinical and operational integration, and the difficult decisions related to the rationalization of clinical services, the benefits are limited.

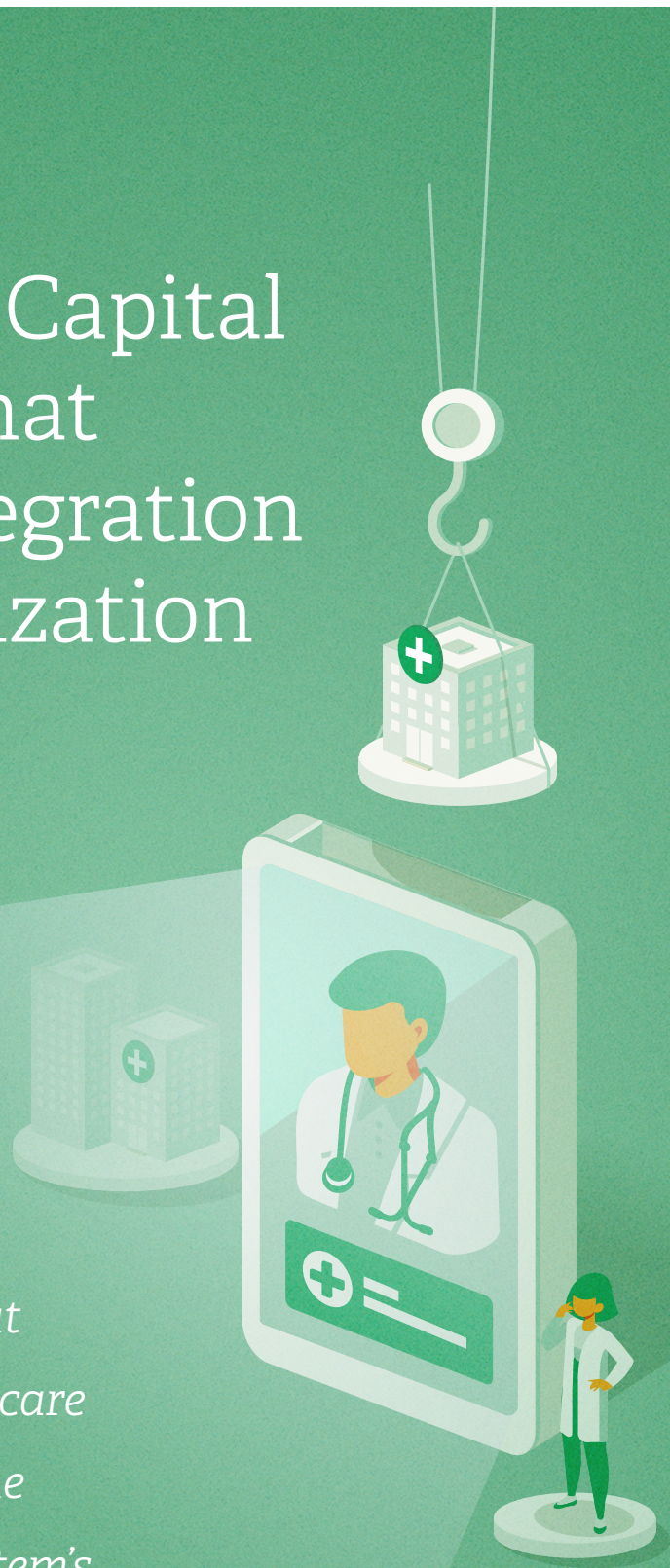
Quantifying the value of clinical services and prioritizing their strategic importance is the easy part. Executing on those decisions is another matter.



**KEY IMPERATIVE 4:**

Implement a Capital Asset Plan That Supports Integration and Rationalization

As digital health becomes more pervasive, health systems will need a technology ecosystem that seamlessly integrates the care provided virtually with the services offered in the system's facilities and through partnerships.





Going forward, capital asset strategies and associated investments will need to provide the underpinning of an integrated, rationalized, efficient delivery system. This will entail rationalizing the current capital assets, building adaptable and flexible assets, and developing an integrated technology ecosystem.

– Rationalize Current Capital Assets

For a majority of hospitals, capital asset planning is currently reactive and focused on immediate needs to replace equipment that breaks or address operational and/or capacity constraints in a single clinical area. The absence of long-term thinking leads to inefficient use of resources and higher capital costs. Instead, health systems should conduct an assessment to determine which of their facilities require upgrades, can continue operation with maintenance, should be repurposed, and should be phased out. In creating a strategically oriented capital asset plan, health systems will also need to establish how many assets (e.g., beds, operating rooms, exam rooms, imaging equipment) are needed in which locations and evaluate whether all existing locations should be maintained, which will often require difficult conversations about consolidating locations. Determining the best short-term and anticipated future uses of available capital assets will increase revenue and decrease costs in the long run.

– Build Adaptable and Flexible Facilities

When designing and building facilities, flexibility and adaptability are critical. Ambulatory care sites in particular will need to accommodate multiple clinical service lines, diagnostic and

therapeutic services, and physicians and specialists on any given day. Standard room sizes, limited customization, and efficient layouts will maximize the use of space. Similarly, inpatient rooms designed with the flexibility to quickly transition to ICU capabilities when needed is a best practice. Although the up-front costs will be higher, designing facilities to support future plans will ultimately save money and time.

– Develop an Integrated Technology Ecosystem

Patients are increasingly engaging with providers via telemedicine, remote diagnostic and therapeutic procedures, and online portals. The COVID-19 pandemic has accelerated the technology adoption curve. This transition to new access channels drastically changes the facility and space needs for health systems, reinforcing the importance of building flexible, adaptable spaces.

Significant capital investments will be required to implement a comprehensive EHR, link digital medical equipment, and develop other analytical decision support tools. Funding will also be needed to maintain the technology infrastructure to support both site-to-site and site-to-home communication and information exchange. As digital health becomes more pervasive, health systems will need a technology ecosystem that seamlessly integrates the care provided virtually with the services offered in the system's facilities and through partnerships. The infrastructure of integrated, rationalized health systems must support both "bricks and clicks."

“ We believe healthcare will be more like the airline and banking industry, both of which are fully digitally enabled but have a balance of 'bricks and clicks,' with defined roles where you can seamlessly move between the two. Clearly, we have a lot of 'bricks,' so building out the platform that integrates 'clicks' is essential.”

Robin Damschroder

CFO of Henry Ford Health System



Implications

The time, effort, and leadership commitment required to achieve gains in clinical, operational, technological, and financial integration and/or rationalization are significant, and the cultural and political challenges are real. However, organizations that have embarked on these initiatives realize both measurable and qualitative benefits in four key areas, as shown in figure 4.

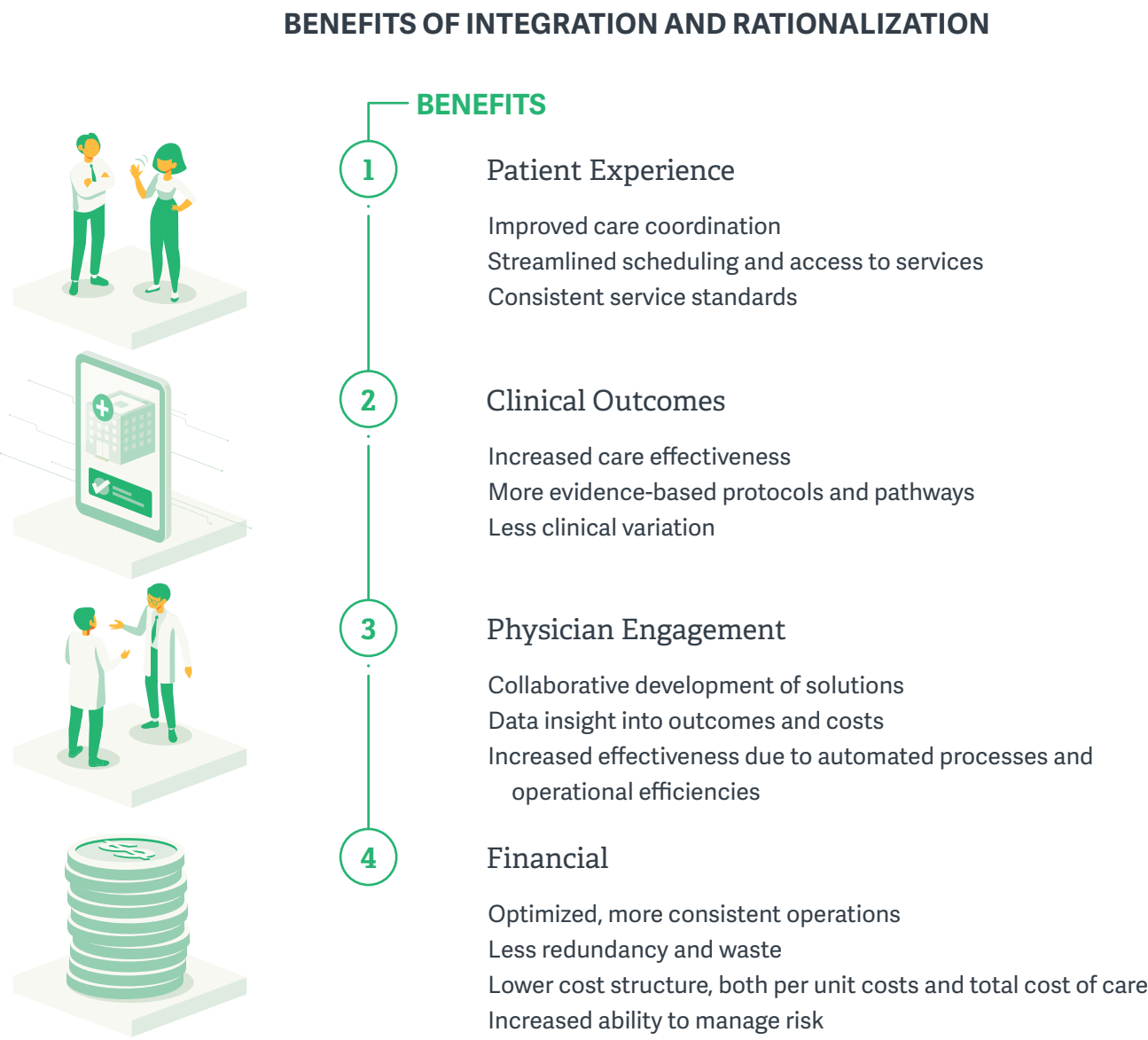


Figure 4: Benefits of Integration and Rationalization



Organizations in each of the three integration/rationalization stages are likely to be addressing specific initiatives described in the previous section (see figure 5). While the benefits are greatest for the initiatives being implemented by the most advanced health systems, those organizations probably face the lowest degree of urgency for achieving financial and operational improvements. For the largest health systems, it will be essential to have both scale and performance as an integrated system.

ESSENTIAL CONSIDERATIONS BY INTEGRATION/RATIONALIZATION STAGES

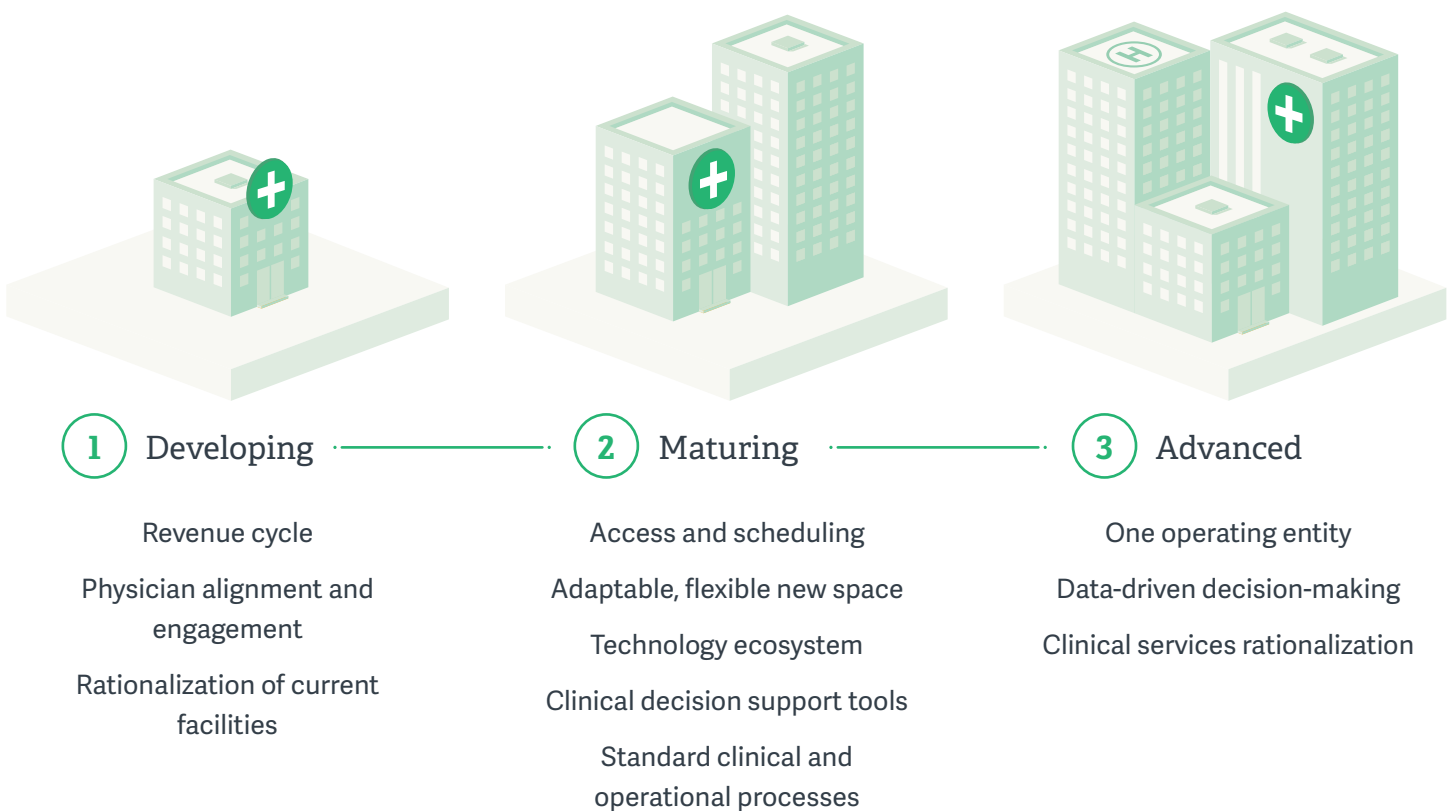


Figure 5: Essential Considerations by Integration/Rationalization Stages

Realizing the benefits of integration and rationalization requires a journey, not one-time initiatives, so ongoing leadership commitment is a prerequisite, while physician alignment and engagement are essential. Initial achievements and improvements reveal additional opportunities to address and provide a platform for the next stage of work. To compete effectively and make healthcare more affordable, economic and clinical integration as well as rationalization of services are the essential means to consistently improve processes and outcomes and attain a lower cost structure.



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