

Is Your Organization a Children's Hospital or a Children's Health System?



Nearly all children's hospitals articulate their vision and mission as some variation of providing high-quality care, conducting innovative research, training the next generation of healthcare providers, and improving the health and well-being of children in their community. While branding and promoting themselves as "children's hospitals," their visions and missions require the efforts of physicians and healthcare professionals who work both in the hospital and across the broader healthcare delivery system.

Often the children's hospital and the employed specialists in the pediatric physician organization (PO) are managed as separate business units, often leading to functional "silos," even though they depend on each other for mutual success (i.e., growth, quality of care, operational performance) and financial stability, and ultimately their ability to carry out their collective mission.¹ This is a partly a result of corporate structure and the way revenues are directed by the fee-for-service reimbursement model.

Well-integrated children's health systems are better equipped to provide high-quality, family-centric care in a way that improves the patient experience and ensures continuity of care.

These operational silos can result in transactional relationships that put excessive administrative burden on the management teams, exclude physician leaders from hospital decision-making, and fail to align the strategic and financial interests of the hospital and PO.

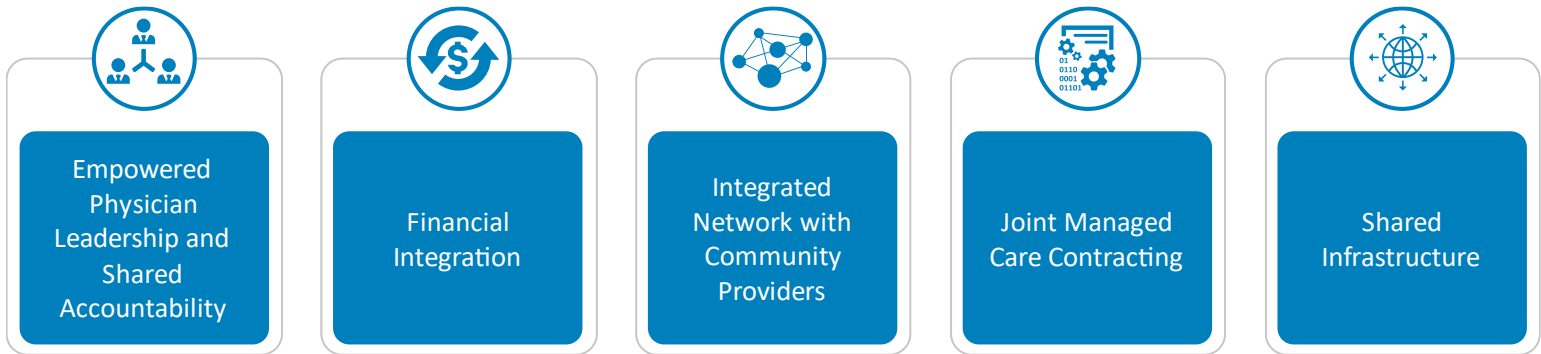
Children's hospitals that have partnered with POs to function effectively as **integrated children's health systems** have a number of advantages, as they:

- » Create strategic advantages.
- » Foster physician engagement.
- » Reduce fragmentation.
- » Lower infrastructure costs and duplication.
- » Are best positioned to jointly set and achieve performance goals.

¹ Depending on the organization, pediatric specialists may be employed through the hospital, PO, or university/school of medicine. In many examples where they are not directly hospital employed, their professional services are leased or contracted.

Five Core Characteristics of a Children's Health System

An integrated children's health system is characterized by these features.



EMPOWERED PHYSICIAN LEADERSHIP AND SHARED ACCOUNTABILITY:

Integrated children's health systems include senior physician executives (e.g., the practice CEO, the pediatrician-in-chief, the surgeon-in-chief) on the health system's executive leadership team, and typically in a matrixed reporting structure. The executive team drives the development and adoption of a shared vision and strategy for the collective system.

Hospital and physician leadership jointly develop and pursue strategies for regional expansion, recruitment, capital investment, education, research, and the development of programs, service lines, and institutes. Physician leaders are empowered and share accountability for the growth and performance of services across ambulatory and hospital settings; they are not limited to the PO. This arrangement acknowledges that strategic initiatives have little chance of success without physician buy-in and engagement.



FINANCIAL INTEGRATION:

Given the realities of the fee-for-service environment that most organizations still operate in, the majority of patient care reimbursement accrues to the children's hospital. We know that in most organizations, physician revenues alone are not enough to sustain operations of the clinical practice, much less spin off the funds needed to subsidize investments in research and education. As a result, most POs rely on clinical and academic support from the hospital to supplement professional fees.

Financially integrated children's health systems are transparent on the financial performance of the hospital and the PO; they collectively develop budgets and manage financial performance. Many have transitioned to budget-based approaches for managing the finances of the PO without the need for hospital subsidies or contractual deficit funding (avoiding the expectation that the PO must break even or better).

They have adopted performance-based funds flow models that use incentives (e.g., productivity targets and quality/safety metrics) to align the financial interests of the hospital and PO. An integrated financial model avoids perpetual internal negotiations about contracts and one-off deals, which draw attention and focus away from collaborating on outward-facing strategy and make the organization less agile.



INTEGRATED NETWORK WITH COMMUNITY PROVIDERS:

While children's hospitals have historically built their services around specialty care, children's health systems have expanded their focus to deliver primary care in the community setting through direct employment or network affiliations with private practice pediatricians. Primary care coordination is fundamental to succeeding in value-based models. In more competitive markets, alignment with pediatric primary care is a key strategy for preserving or gaining market share.

Children's health systems are increasingly exploring partnership models with community hospitals as a way to provide lower-complexity care closer to where patients live. Comprehensive care systems with the coordinated delivery of pediatric primary and specialty care improve patient experience and physician satisfaction on hand-offs and follow-ups—and these are core components of executing value-based care initiatives.



JOINT MANAGED CARE CONTRACTING:

Contracting with payers jointly, on behalf of the hospital and the PO, ensures that reimbursement decisions are made in the best interest of the enterprise rather than to benefit an individual business unit. Financial integration is typically a prerequisite to effective joint managed care contracting.

POs that solely rely on professional fee reimbursement to fund the compensation pool or to support academic efforts will inevitably have little flexibility to think differently about managed care strategy and other key financial decisions. Performance-based funds flow models are typically delinked from revenue for this reason. Effective joint payer contracting allows the children's health system to optimize reimbursement and best positions the health system to succeed under value-based models.



SHARED INFRASTRUCTURE:

Performance improvement and sustainability depend on maximizing efficiency and streamlining administrative expense. Shared resources—enterprise-level revenue cycle, IT, contracting, legal, and HR platforms—are more efficiently deployed and provide for broader scale and higher-performing support services than duplicate and siloed services.

The buildup of duplicative support services and staff within the PO or at the department level is an inefficient use of resources that could be better directed toward growth initiatives or the academic mission.

There Is No Single Model for Success

While many organizations have attained some of the characteristics above, opportunities exist at most children's hospitals to grow into a more integrated children's health system through the achievement of all five core features. Certain features may be more or less feasible in different organizational structures², but higher performance through greater integration can be achieved in any organizational construct. Ultimately the ability for a children's health system to act as one, regardless of corporate structure, will be a competitive advantage and accelerator for performance.

² The corporate structure of the children's hospital, PO, and medical school, and the employment model of the physicians, varies across organizations and may create (real or perceived) obstacles to full integration.

While many highly regarded children's hospitals are financially and often corporately integrated with their PO, variation exists in terms of how they structure this relationship. The unifying theme is that successful organizations have committed to a shared philosophy of functioning as an integrated children's health system that allows them to perform at their highest level.

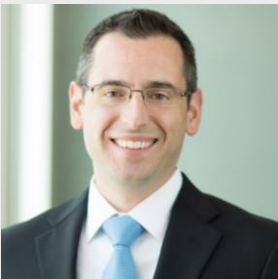
Well-integrated children's health systems are able to reduce fragmentation within their organizations. They are better equipped to provide high-quality, family-centric care in a way that improves the patient experience and ensures continuity of care as patients move through the healthcare system. Ultimately, this empowers children's health systems to best achieve their overarching purpose: enhancing the health and well-being of the children and families in the communities they serve.

ABOUT ECG

With knowledge and expertise built over the course of nearly 50 years, ECG is a national consulting firm that is leading healthcare forward. ECG offers a broad range of strategic, financial, operational, and technology-related consulting services to providers, building multidisciplinary teams to meet each client's unique needs—from discrete operational issues to enterprise-wide strategic and financial challenges. ECG is an industry leader, offering specialized expertise to hospitals, health systems, medical groups, academic medical centers, children's hospitals, ambulatory surgery centers, and healthcare payers. Part of Siemens Healthineers' global enterprise services practice, ECG's subject matter experts deliver smart counsel and pragmatic solutions.

For more insights from ECG, visit www.ecgmc.com/thought-leadership.

The Author



Evan Lynch-Throne

Associate Principal

617.227.0100

elynch-throne@ecgmc.com

Evan is an Associate Principal based in ECG's Boston office. He is a senior member of the Academic Healthcare Division and leads ECG's Children's Service Line.