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focused factories: meeting the challenges of payment reform

CASH

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focused factories meeting the challenges of payment reform

Hospitals that are structured as systems of focused factories—providing bundles of care in a variety of service lines—will be better positioned to compete under value-based business models.

AT A GLANCE

Three strategies can enable a hospital to transform its business into a portfolio of focused factories:

- > Change the traditional organizational structure to one that is service-line based.
- > Promote integration with physicians through shared management and governance control at the service level.
- > Manage services across hospitals.

My Nissan hasn't seen the dealership since the day I bought it. When I needed to have a dent fixed, I took my car to a body shop. When I needed new tires, I went to the tire center at Costco. When it comes time for a new muffler, I'll probably head to Midas.

Why not return to the dealership for such maintenance? I get better value from the focused factories at the body shop, Costco's tire center, and Midas; they provide better quality, greater convenience, and better service at a lower price.

A focused factory is an organization that is characterized by a focus on a limited range of activities or a limited group of customers. Regina Herzlinger of the Harvard Business School describes focused factories in health care as bundles of care that meet all of a patient's needs for a specific condition (Galvin, R.S., "Consumerism and Controversy: A Conversation with Regina Herzlinger," *Health Affairs*, July 24, 2007). Today, focused factories can enable healthcare organizations to provide enhanced quality of care and convenience at a lower cost for patients, thereby better positioning them for success under healthcare reform.

The Move Toward Focused Factories

Hospitals that are structured as systems of focused factories operating in close coordination with physicians are demonstrably better positioned to

compete under today's fee-for-service system. They also will have advantages over other systems as the nation moves toward a healthcare payment system that rewards efficiency, coordination, and high-quality care (i.e., value over volume).

Regardless of whether an organization is a single community hospital or a large health system, and whether it anticipates an increase in patient volume or is simply seeking better ways to better manage existing volume, focused factories can help the organization meet the challenges of payment reform and be better positioned for future success.

Specialty hospitals and centers of excellence are steps toward focused factories. They allow patient care teams and healthcare administrators to focus on the needs of a select group of patients with similar conditions.

A recent survey found that top-performing service lines, as rated by their quality measures, are four times more likely to have physicians in service-line leadership roles (*Cardiovascular Service Line Management Survey—Key Results*, 2009 Based on 2008 Data, ECG Management Consultants). According to the report, such leadership results in more efficient care, more patient-centered service, greater integration with physicians, and better outcomes. Under fee-for-service reimbursement, these attributes—efficiency, patient-centered service, physician integration, and better outcomes—have a marginal impact on a hospital's bottom line; however, in a world of bundled payments and accountable care organizations, they are critical success factors.

The following strategies can guide the transformation of hospitals and health systems into a portfolio of focused factories:

- > Change the traditional organizational structure to one that is service-line based.
- > Promote integration with physicians through shared management and governance control at the service level.
- > Manage services across hospitals.

Each focused factory should be managed individually as a profit center of the hospital, with its own profit and loss statements and reports.

Change to a Service-Line-Based Organizational Structure

Nearly every strategic plan identifies specific clinical areas and specialties that will receive a greater focus and investment than others. Hospital administrators are increasingly focusing their attention on the development of service lines or centers of excellence that could allow them to gain a competitive advantage. Focused factories extend the service-line concept and require organizations to restructure themselves to optimize services through effective management and decision making.

Each focused factory should be managed by a dedicated administrator who is empowered and held accountable for strategy development, operational and financial performance, and achievement of quality metrics. The administrator should report directly to someone from the hospital's senior leadership team to ensure that senior leaders have input into the team's activities and can provide support where needed.

Each focused factory also should be managed individually as a profit center of the hospital, with its own profit and loss statements and reports that allow for effective financial budgeting and management. All services—inpatient and outpatient—related to bundled episodes of care should be allocated to the focused factory associated with the bundled care package.

For example, all of the revenue and costs associated with a patient who undergoes a magnetic resonance imaging scan, a total hip replacement

procedure, an inpatient stay, and physical therapy should be allocated to orthopedics. If the orthopedics service line is assigned its own operating rooms (OR) and/or patient rooms, the cost of those rooms should be carried by orthopedics. If a nonorthopedic case is performed in an orthopedic OR, orthopedics should be credited for the use of this asset. These types of cost-accounting efforts will present challenges for the finance department, but they also will allow the organization to better understand the true cost of providing orthopedic services—which will in turn facilitate more informed decision making.

Ideally, a one-stop shop should be developed where all of the services associated with a bundled package of care can be provided. When this approach is not practical, hospitals should strive to ensure that all of the components of a focused factory are located as close to each other as possible. Virtual models—where services are provided in multiple locations, but managed as a single business with effective communication across locations—also can achieve many of the benefits of a focused factory.

Comanagement: Empowering Physicians to Run Your Service Line

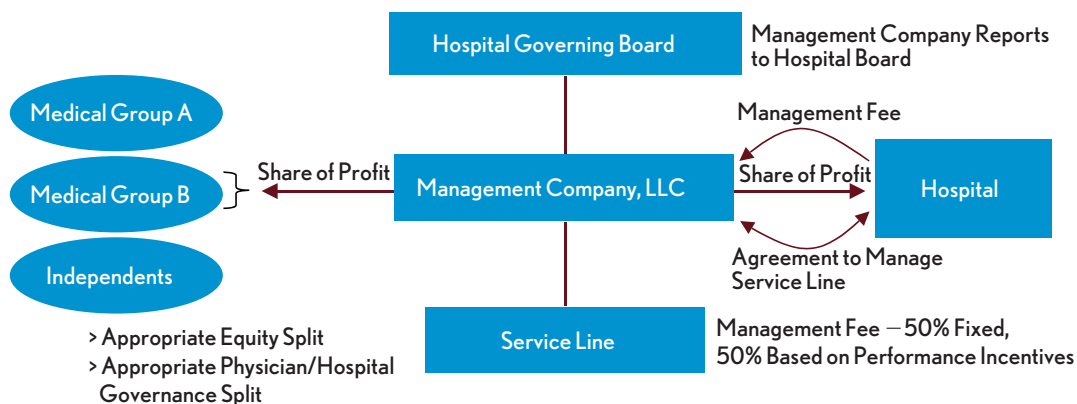
Under a comanagement model, the hospital and physicians jointly own a company that is contracted to manage the day-to-day operations and conduct long-term planning for a service line. Hospitals generally pursue these arrangements to:

- > Enhance the delivery, operational performance, and quality of the service line
- > Facilitate the development of new service-line opportunities
- > Align the goals of physicians and hospitals through the shared management of services

Imagine the progress a hospital could make in reducing costs of care, driving down readmissions, ensuring coordination among providers,

and adhering to protocols if the physicians providing the care were paid to make sure quality metrics goals were achieved. Under a comanagement arrangement, a portion of the payments made to the management company are based on the achievement of quality and efficiency measures. The management company's incentive compensation includes predetermined bonus payments that are contingent upon the achievement of specific quality and efficiency measures. To ensure continued improvement in quality, measures can be refined on an annual basis, and compensation can be based on the quality of the outcomes achieved.

GOVERNING MODELS FOR COMANAGEMENT OF FOCUSED FACTORIES



Promote Integration with Physicians Through Shared Management Control

A hospital's future success is contingent on its leaders' ability to develop and retain effective physician leaders, modify the organization's organizational structure to incorporate physicians within it, and ensure that the reach of the organization is not confined within the walls of the hospital. Does it ever feel as if the hospital needs to identify a physician champion prior to launching any major initiative? If so, the organization is headed in the right direction. Most, if not all, of the big-impact changes a hospital or

health system can make require the active participation of physician leaders.

To promote integration with the physicians who will actually control the level of success the focused factory achieves, the focused factory's dedicated administrator should be paired with a physician leader to form a dyad management team—both of whom should report to a member of the senior leadership team. Physician leaders are best positioned to ensure high-quality care and levels of safety, help achieve pay-for-performance goals, pursue service development

Management companies such as these are structured so that physician investors and the hospital each hold a portion of the governing power of the company. Ownership can be split equally or with majority ownership held by either the hospital or physicians (see the exhibit at left). Comanagement arrangements often provide for one or more medical directors, an operations director, and an outcomes measurement coordinator.

Responsibilities of the management company may include the following:

- > Development of the service-line strategic plan and operating and capital budgets
- > Management oversight of the staffing, equipment, and supply/purchasing plans
- > Negotiation of the service arrangements, including hospital-based services (e.g., anesthesiology, radiology, pathology)
- > Development of care protocols and quality management
- > Case management, including discharge planning
- > Creation of improvement policies and marketing strategies

To enhance coordination throughout the service line and the continuum of care, we recommend that the management company assume responsibility for the entire service line, to include both inpatient and outpatient services

related to the service line. In fact, one of the initial responsibilities of the management company could be the planning and development of the service line itself to allow for the creation of a new focused factory. The exhibit below summarizes some of the benefits of comanagement arrangements for hospitals and physicians.

BENEFITS OF COMANAGEMENT ARRANGEMENTS FOR HOSPITALS AND PHYSICIANS

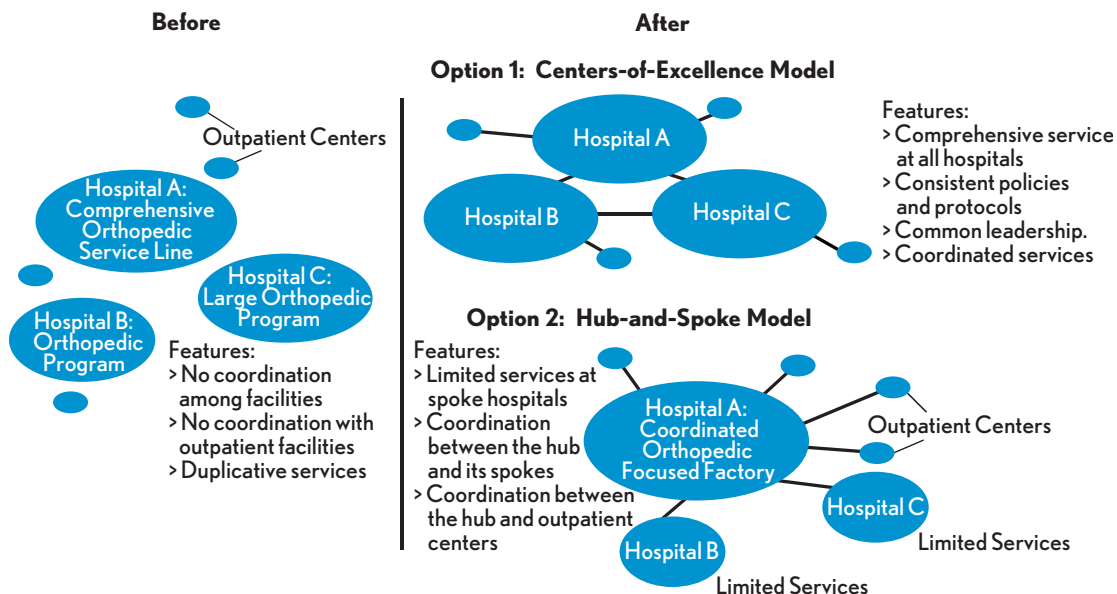
Hospital Benefits

- > Offers a cost-effective and collaborative alternative to employment for the integration of specialists
- > Fosters the development of tools and mechanisms to promote an increased quality of services
- > Establishes a direct line of input from physicians into service-line growth strategies, technological advances, and performance improvement ideas

Physician Benefits

- > Pays physicians to control decisions that significantly impact their level of efficiency, quality, and satisfaction
- > Provides an economic benefit to physicians while allowing them to preserve practice independence
- > Provides a recruitment tool to groups that hold an ownership interest in the management company

MODELS FOR MANAGING A SERVICE LINE ACROSS HOSPITALS



opportunities, and foster relationships with employed physicians and independent medical staff members.

The physician-administrator management team should make key operational, strategic, and financial decisions for the focused factory. This structure should foster greater physician participation and leadership within the focused factory, and it should enhance physicians' overall knowledge of the focused factory's goals and alignment with those goals. The dyad structure supports the following goals, which lead to optimal performance:

- > Integration, where physicians are fully integrated into the organizational structure and become leaders in program management and strategic/business decision making
- > Accountability, where physician leaders work directly with administrators to improve operations and performance and to develop budgeting strategies
- > Transparency, where physician leaders have clear expectations with regard to reporting relationships, roles, and responsibilities
- > Efficiency, where the physician/administrator pairing creates an environment for effective decision making

Managing Services Across Hospitals

Many regional health systems operate several hospitals within close proximity to one another. Furthermore, there is a trend toward hospitals merging with nearby facilities and acquiring smaller competitors in response to economic challenges and to improve their competitive position under healthcare reform. Under these conditions, health systems often operate multiple facilities that provide the same services with little or no coordination or sharing of best practices.

The preferred model for managing a service line across hospitals will depend on each hospital's capabilities and the likelihood that physicians and administrators will be receptive to changes in clinical delivery. The exhibit above illustrates orthopedic services provided at a three-hospital system before and after the system made the shift from uncoordinated services across facilities to more coordinated operation. Two options are presented to manage services across hospitals. Under both options, care is coordinated across facilities and hospitals operate under common policies, protocols, and administrative and physician leadership.

Option one presents a centers-of-excellence model wherein each hospital continues to provide its historic level of services or expands services. The focus is on quality gains from shared best practices, increased attention from management, and enhanced patient and physician convenience across multiple locations. For example, under this model, cardiovascular services at multiple hospitals could be managed such that percutaneous coronary interventions may be offered without open-heart backup at one facility, while a second, larger facility could provide more comprehensive services. However, the cardiovascular services at all facilities work as a single, coordinated focused factory with a common vision and shared best practices.

Option two presents a hub-and-spoke model. It facilitates the creation of a focused factory that spans multiple organizations and supports integration with providers outside of the health system (e.g., physicians, rehabilitation specialists, and long-term care facilities). The hub is not necessarily the largest or most centrally located facility; rather, it is the hospital that houses a comprehensive line of services and handles the majority of cases in that particular specialty. Each spoke provides limited-to-no inpatient services and serves as a feeder to the hub.

Moving from multiple, uncoordinated facilities to either a centers-of-excellence or a hub-and-spoke model requires a system-level strategic plan. The plan should consider each hospital's capabilities, existing outpatient facilities, physician locations, and the competitive environment. It also should include the key components of a shared vision and goals for the focused factory and changes to the role and programmatic focus of each campus as well as changes to the organizational and management structure across all of the campuses. The preferred structure specifies how the services will be managed to foster coordination across all of the hospitals and outpatient facilities based upon the programmatic footprint

identified at each campus and the resulting implications for patient flow, staffing, and more.

Reducing and eliminating services from a hospital is a difficult concept to sell—to the hospital board, to hospital executives, to physicians and nurses, and to the community. A plan for a focused factory must include details regarding how hospital utilization will be maintained (i.e., how other services will be expanded to backfill reductions), how the system as a whole will benefit, and how the community will be better served under the new model. Typically, a phased approach is required to reduce resistance from physicians (who will be concerned about where services will be located, whether these locations will be inconvenient for them or their patients, and whether a focused factor will have a negative impact on referrals) and administrators (because of concerns about the financial impact to their facilities and the corresponding effect on their incomes and careers). These are major barriers that should be dealt with from the start of the planning stage.

Focused on Value

A hospital can improve its ability to provide coordinated care, reduce costs, and improve outcomes by restructuring its organization around treatment of patient conditions rather than monitoring of hospital functions, empowering physicians to manage clinical services, and coordinating services across facilities. As a result, the hospital will be better positioned for success under payment reform. ●

About the author



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