

## CASE STUDY

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## when a health system develops its own road map

For a hypothetical and typical health system, deciding how to get from where it is today to where it needs to be in five years is an intricate—and also critical—undertaking.

### AT A GLANCE

- > Key considerations facing a hypothetical and typical health system as it transitions to value-based payment provide a guide for systems as they undertake this transition.
- > The health system's first step is to review its current environment and strategies and the building blocks it has in place.
- > Next, the system needs to add more building blocks, build a financial cushion, and revise targets and dashboards.
- > Next steps include testing value-based payment contracting, realigning incentives, implementing new care management strategies, and communicating extensively.
- > All of these steps will be unique to each organization.

Most healthcare organizations recognize that they are on the precipice of enormous changes in care delivery, decision support, payment, staffing, compensation systems, governance, management processes, and other areas. Initiatives such as HFMA's Value Project are under way to provide health systems with detailed insight and guidance on how and what to change. At the end of the day, however, every health system must chart its own way, and it is far from a simple matter for any one system to decide exactly how to start and where to go next.

To provide a foundation for understanding how best to answer these critical questions, we offer this case example of a fictional health system, based on the experiences of five actual health systems.<sup>a</sup> First, we trace the system's journey—looking back over the past two years, and then, we assess its future, looking ahead for the next five years. We call our hypothetical health system GetWell.

GetWell is in many ways a typical health system: It comprises an urban hospital with a large and growing emergency department (ED); two rapidly growing community hospitals; a remote, smaller hospital; an employed physician practice, and a host of ambulatory facilities.

### Looking Back

GetWell is a community and regional system that has grown over time. The system has historically been well managed. Facilities were added through mergers and through new construction in the growing part of the region GetWell serves.

a. Site visits to three of the health systems were conducted as part of research for HFMA's Value Project, published in the project's October 2012 report, *The Value Journey: Organizational Road Maps for Value-Driven Healthcare*. The other two systems are strategic planning clients of McManis Consulting.

**Environment.** GetWell's management and board see their local market as "being in the middle" in many respects. They understand that changes are coming, for example, but they do not expect outside pressure from payers in the next year. They are all simply trying to "feel their way" using the building blocks shown in the sidebar below.

GetWell is the market leader in a competitive market, with one strong local competitor and other competitors within reasonable driving distance. Its urban hospital is the source for trauma care for the region, but it is losing money. However, the system's suburban hospitals are growing and performing well financially.

**Strategy.** GetWell's strategy can be summarized as follows: "We would like to be the 'first mover' in our market, but we have the luxury to watch what the very early adopters do in other markets."

Today, GetWell acknowledges its need to prepare for the move to state insurance exchanges, to value-based payment, and probably to a more consumer-driven market. The management team has been focusing on preparations for the past two years: "We have to be ready to 'flip the switch' from fee-for-service to value-based payment."

GetWell understands what needs to be done in the years ahead and is grounding its strategy in a shift toward population-based care. GetWell sees this strategy as transformational for the organization in numerous ways. Most important, this strategy continues the move toward operating as a system rather than as disparate business units. It requires the organization to manage care effectively at the patient and population level, including across care settings. And it requires leaders to think of care delivery performance as driving both quality and financial results.

**Building blocks.** Looking back, system management feels good about the building blocks it has already put in place. GetWell's hospitals and other facilities are well located to work under both fee-for-service or value-based payments. The growing suburban hospitals generate cash for the system, and they facilitate referrals of tertiary cases to the downtown facility. The system has done a good job of balancing the proportion of specialty and primary care physicians.

The health system installed a systemwide electronic health record (EHR) two years ago for both inpatient and ambulatory services. Physician practices (both for employed physicians and for independent, affiliated practices) are slowly being added. The organization is beginning to develop more useful business intelligence based on more complete clinical data.

At times, it has been a challenge, but key groups—including the board, senior management, employed physicians and independent affiliated physicians, caregiving staff, and finance staff—are beginning to see themselves as more of a coordinated team. The process of developing order sets (in conjunction with computerized provider order

## GetWell: Looking Back

GetWell has consistently been regarded as well managed. It is the market leader in a competitive market, which can be summarized as follows:

- > The system faces strong provider competition, with one major local competitor and two others in nearby communities.
- > The cost market is moderate, with low commercial prices but high utilization.
- > A competitive insurer market is also highly competitive, with three major commercial carriers, two of which are interested in new payment models.
- > GetWell has the highest market share and highest favorable brand awareness.

GetWell has already established numerous key building blocks for value-based payment:

- > It has created the requisite system—for example, through mergers, construction, and branding, and through its physician group and primary care physician foundation.
- > It has developed the requisite inpatient IT infrastructure, with an EHR, order sets, and data access from any point.
- > It has established disciplined operating and capital financial processes.
- > Its board and staff are well educated in issues related to value-based payment and care coordination.
- > It has put in place management talent and performance improvement processes, including use of dashboards and Lean methodologies.
- > It has a solid financial position, with a 1.5 percent margin and an A- bond rating.

entry), care pathways for major disease groups, and strategies for avoiding readmissions have brought home the need for closer coordination. No one is under the illusion that the organization is anywhere close to where it needs to go, but its progress is seen as “a good start.”

The organization has always had adequate financial systems and disciplined capital and operating budgeting processes. These have paid off. The system has admirable financial ratios.

As GetWell prepares for the future, management sees itself in a good position to weather the change processes and uncertainties on the horizon. Looking ahead, three phases of activities have been crafted,

which the management team has labeled “Continuing Preparations,” “Turning the Corner,” and “Heading for the Target” (see the sidebar below).

### Continuing Preparations

GetWell’s leaders recognize the need to take three additional important preparatory steps: add more building blocks, build a financial cushion, and revise targets and dashboards.

**Add more building blocks.** First, there is a need to address medical practices that are not on the system’s EHR. A combination of approaches is being used to get information to and from these practices, including subsidies up to the legal limit for purchasing EHRs, brief faxes of key information

## GetWell: Looking Ahead

GetWell’s plans for population management and value-based payment will involve the following three-part transition.

### Continuing Preparations

Add more building blocks:

- > Flesh out EHRs for physician offices or other linkages.
- > Develop new analytics.
- > Improve cost accounting.
- > Implement/refine care coordination strategies.

Build a financial cushion:

- > Reduce the cost structure.
- > Seek further scale economies.
- > Reduce referral leakage.

Revise targets and dashboards:

- > Set interim targets for efficiency, quality, and service.
- > Support targets with new analytics.
- > Adjust operating and capital budgets.

### Turning the Corner

Test value-based contracting:

- > Implement one or more experimental contracts.

Realign incentives and evolve the culture:

- > Adjust compensation models.
- > Adjust funds flows between business units.
- > Rearticulate a systems vision.
- > Establish physician leaders of cost and quality initiatives and strategies.

Implement/adjust new care management strategies:

- > Build on emergency department diversion, patient-centered medical home, and disease management strategies.
- > Attack care bottlenecks.
- > Establish high-risk-care protocols.
- > Expand process improvement.

Communicate extensively:

- > Implement internal and external communications campaigns.

### Heading for the Target

Seek and manage risk:

- > Seek full-risk contracts with commercial payers, employers, patients, and public sector entities.

Refine and strengthen linkages within and outside the system:

- > Reconsider ways to achieve scale economies.

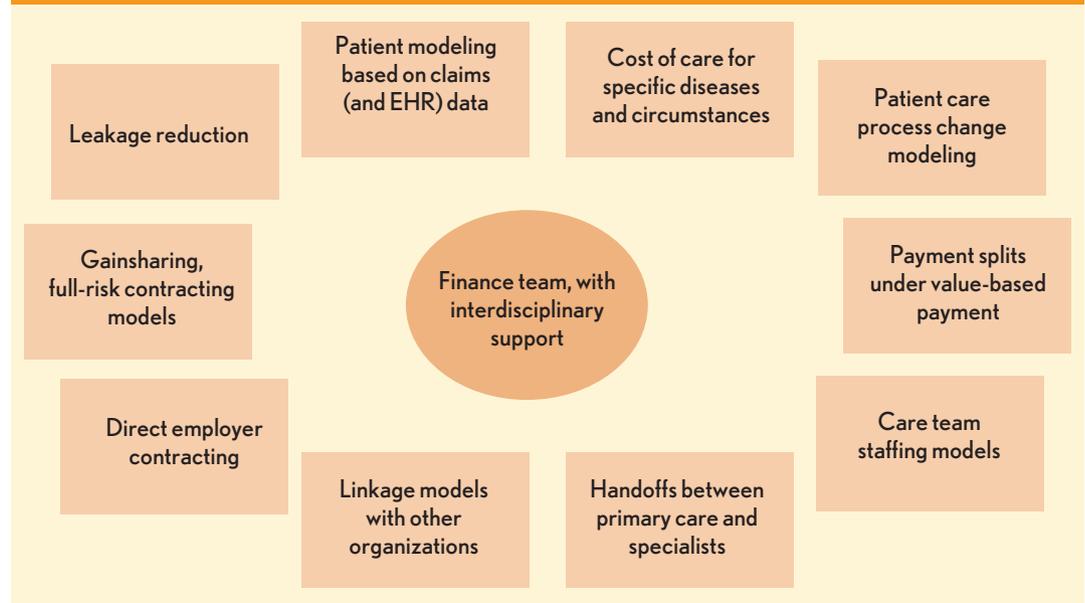
Leverage and extend IT:

- > Strengthen electronic patient relationships.
- > Expand self care.

Integrate care management decision-making and infrastructure:

- > Right-size the care delivery staff and composition.
- > Reassess governance and management approaches.
- > Manage care across settings.

## ASSESSMENT QUESTIONS: SELECTED FINANCE EXAMPLES



each way, streamlined approaches that physicians can use to access patient data from the EHR via the Internet portal, and continued investment and grant-seeking for the area's struggling regional computerized information exchange.

The organization also will add primary care physicians and bring them closer into the leadership of the organization.

At a time of tight budgeting, two cost items are being increased. First, GetWell is installing a new cost accounting system, seeking more refined data to use in analyzing programs and in supporting contracting activities. Second, the system is adding staff and software in analytics so that it can better analyze the flow of data and support the development of new care management approaches. GetWell intends to integrate financial and quality data to give analysts a clear view of the system's performance as it moves toward a more coordinated system of care.

**Build a financial cushion.** Meanwhile, GetWell is making a concentrated push to improve the system's financial cushion as it heads into the anticipated period of turbulence. Everything is being reevaluated, from the appropriateness of FTE counts to whether programs are profitable or

unprofitable—and programs making money could make still more.

The system has a board-level task force evaluating options for creating a larger system through mergers or acquisitions. GetWell's leaders recognize that scale economy opportunities exist in multiple aspects of the system, including the supply chain, the revenue cycle, utilization of expensive equipment, management personnel costs, marketing and contracting, and ACO development costs and processes (just to name a few). The task force is also working with management to identify options for economies of scale other than mergers. GetWell's leaders had considered mergers in the past, but the board now appears to be ready to take a much closer look, recognizing that some windows may close if the system does not seize the opportunities now.

Another major push is to reduce leakage. GetWell currently receives and analyzes patient-level data from multiple sources, including previously unavailable data from some payers. And the findings are shocking to the system's leader: Primary care physicians are sending as much as 70 percent of their referrals to physicians and facilities outside of the GetWell system. Reducing this percentage would have a huge, immediate impact on the system's bottom line.

**Revise targets and dashboards.** GetWell needs new tools to manage an organization that expects to contain the total health costs of a defined population. As a start, GetWell needs to know whether the per-member per-month health costs of the families it serves are rising or falling. The system is developing new targets, based on what it knows about the population as opposed to what it knows about a given procedure or diagnosis, around quality, utilization, revenues, costs, communication patterns, and patient experiences. Such an effort almost invariably requires expanded analytics.

The exhibit on page 4 shows examples of the new questions that financial leaders might ask. Meanwhile, other departmental leaders are asking new questions of their own. For example, how should GetWell market and position the organization? How does the physician group need to evolve over time? What best practices exist to enhance chronic disease care programs? How should high-risk patients be defined, identified, and cared for?

Each new question leads to additional questions regarding where to obtain the data, how reliable the data are, who needs them, who is responsible for developing and implementing related action plans, and other issues.

### Turning the Corner

The question of when GetWell will “flip the switch” from the old to the new care model remains unanswered at this time. The answer depends on considerations such as how fast the state insurance exchange will be up and running and whether the system’s current assumptions about being an early adopter in its market will continue to hold.

Regardless of timing, GetWell has more work to do as it begins to turn the corner. GetWell’s leaders do not expect to see many of the changes in behavior that they seek, or the results they hope for on the total costs of care, until there are dollars at stake. They see the need to pursue payment experiments and to ensure that the incentives are reflected in GetWell’s compensation models. Only

through such undertakings can they truly understand where the organization stands and where it needs to go.

**Test value-based payment contracting.** Leaders are leaning toward a payment experiment with a “friendly” commercial payer, and they are also considering pilots being administered by the Centers for Medicare & Medicaid Services. A Medicaid pilot is also under discussion and looks promising.

**Realign incentives and evolve the culture.** GetWell is ahead of the game in allocating the gains from its anticipated gain-sharing contracts. An in-house methodology for allocating gains has been developed, and both system management and the physician group have bought into it. Contracts with the emergency group physicians, radiologists, and hospitalists also have been adjusted to reflect efficiency and quality measures and deemphasize key hospital-based services. Nonetheless, in watching the experiences of others, GetWell’s leaders anticipate the need for changes in the system’s compensation models at least twice over the next five years.

The leaders expect a major effort in rearticulating GetWell’s goals, vision, and culture. Their perspective can be summed up as follows: “We want to retain so much of what we have and who we are. Then we want to articulate how patients will benefit from our new directions. We know this will take work, and time.”

### Implement and adjust new care management strategies.

With the results being seen on the new dashboards, and dollars flowing based on the results, physician leaders and others now expect to revisit what is working and what is not working, and to make necessary adjustments. GetWell’s leaders hope physicians and others will now begin to own and tangibly lead the system. Expected investments include establishment of patient-centered medical homes, chronic disease management programs, high-risk care management protocols, and other evidence-based approaches. Process improvement projects are expanding across locations and care settings.

**Communicate extensively.** Board members already see this as an important time for rebranding—both inside and outside the organization. The objective is to “tell people who we are, well before anyone else tries to paint us with their own brush.”

### Heading for the Target

At this point, GetWell hopes to “become comfortable inside its new skin” and to optimize its opportunities. Several initiatives are envisioned.

**Seek and manage risk.** GetWell expects to weather the storm of declining fee-for-service payment through a combination of lower costs, lower utilization per capita (but higher market share), and substantial value-based payments. At this point, GetWell is seeking to assume as much risk as possible.

**Refine and strengthen linkages within and outside the system.** Now, to optimize its position, GetWell will look again at whether it can achieve even greater economies of scale. The organization sees itself as being in an attractive position to potential partners, physicians, and others. The only question is whether the primary focus should be on expansion, on closer integration, or on both.

**Leverage and extend IT.** GetWell wants a different relationship with its patients, as an active partner in helping families in its service area to optimize their health. It expects to achieve this goal in part by extending Internet-based information, including increasing its use of patient scorecards, smartphones, videos, and many other approaches. From a marketing perspective, GetWell wants to “be the patient’s most trusted healthcare partner.”

**Integrate care management decision-making and infrastructure.** GetWell’s leaders have come to understand how to optimize the system’s caregiving processes by developing the expertise to analyze claims and other data, deriving quality and cost results from internal systems, reducing variation in care delivery, and reducing readmissions.

The system’s leaders also are better able to assess the optimum mix and number of caregivers, and

they are learning how to optimize care delivery across locations and care settings and to better coordinate care in real-time.

They further plan to conduct a comprehensive assessment of their management approach, including the role of physicians and caregivers in management. Given the system’s recent evolution, they expect that adjustments will be necessary in governance, management organization charts and functions, financial flows between units, and other aspects of the business.

### Next Steps

GetWell sees itself as relatively well positioned for what lies ahead. The board, caregivers, and managers see the organization as being more flexible, more closely knit, and better able to meet the needs of its patients and communities.

The organization’s leaders share a common view: “We’ve come a long way in five years. And we are better positioned for whatever lies ahead. We suspect there will be changes we can’t even imagine. We know it will continue to be a journey.” ●

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