Value Management: Optimizing Quality, Service & Cost

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“As a nation, we fall shortest on the value proposition. The immediate and dominant issue of greatest threat to the health and economic security of Americans is the failure of our healthcare system to deliver the value that should be expected from the health care we receive.”

IOM Roundtable on Evidence-Based Medicine, 2008

Hospitals are not generally thought of as classic business environments – and they are unlikely to ever function like one. Nonetheless, hospitals are facing growing pressure to define and measure the components of their basic value proposition, a condition applicable to almost every other industry.

Value is demonstrated by an equation that is a function of three variables – quality, service and price (Webster Jr., 2002).

Figure 1.

\[ \text{Value (V)} = \frac{\text{Quality (Q) \times Service (S)}}{\text{Costs (C)}} \]

Within the hospital industry today, “quality” is typically correlated with clinical outcomes and patient safety, and “service” is considered synonymous with patient and family satisfaction. From an organizational perspective, “price” has historically been related to charges, though it is clear that in the future it will increasingly be tied to cost per patient (Smoldt, 2007), as CMS begins to mandate cost-based reimbursement.
Outside healthcare, successful industries routinely articulate and demonstrate a value proposition. Doing so for healthcare organizations, however, has been tremendously difficult. For years, healthcare clinicians and management have been resistant to promote transparency for a variety of reasons – ranging from a preference for the status quo to concerns about litigation - in addition to being insulated from change by convoluted reimbursement systems, complicated risk-adjustment factors and a limited data-collection infrastructure.

However, for many reasons – escalating healthcare costs in an economic downturn, more informed consumers, high-profile quality and safety breakdowns at premier healthcare institutions, the shift to consumer-directed health plans, and the popularity of third-party ‘comparison’ websites – the urgency around measuring and communicating meaningful data related to “value” has grown exponentially.

Most hospitals have worked hard to respond to these changing dynamics, and the measurement and reporting of value-added metrics (both mandated and voluntary) has increased by an order-of-magnitude since 2000. However, as consumers and payers place greater emphasis on transparency, there will be clear opportunities for hospitals to create sustainable, differentiable positions on the basis of their “value proposition”.

An excellent example is Geisinger's ProvenCare program for elective heart bypass surgery, in which the hospital charges a flat fee for the surgery – the ultimate in cost transparency. If a patient experiences an avoidable complication within 90 days of the procedure, Geisinger covers the entire cost of any follow-up care with no additional fee to the patient or insurer – something the media has labeled “surgery with a warranty.”

To make this possible, Geisinger focused on improving the “quality” component of the value equation without increasing the “cost” variable. To
minimize the number of patients with complications, Geisinger physicians streamlined the surgical process, creating an evidence-based checklist of 40 “best practices” that have optimized clinical performance and profitability. In the first year, overall complications were reduced from 38% to 30%, and the 30-day re-admission rate dropped from 6.9% of patients to 3.8% of patients (Geisinger website, 2007). At the same time, mean hospital charges fell 5% and length of stay improved 12% (Ault, 2007). Geisinger is now launching ProvenCare models for hip replacement services, cataract surgery and percutaneous coronary intervention – with additional modules in development for knee replacement, low back pain and bariatric surgery.

Because of the nature of services provided in the healthcare industry, our belief is that quality (i.e. clinical outcomes and patient safety) will become the most visible indicator of value. Indeed, the payer industry has already moved in this direction. CMS has expanded it’s “never event” list, proposed an additional 43 quality measures for which hospitals will have to report data in order to receive the full annual payment update for their services, and expanded it’s physician pay-for-performance pilot program. Commercial payers have followed suit – with initiatives ranging from Aetna’s “Aexcel” program to Cigna’s “Care Connections”. It is this quality variable which serves as the focus of this paper.
Evaluating Readiness: Understanding Your Value Proposition

While the building blocks of effective clinical quality management are straightforward, they are often scattered, under-resourced, and not focused on key clinical performance goals that are aligned with organizational priorities. Clinical and administrative leaders often view quality measurement as an outcome of the care delivered – instead of identifying quality as a core driver of the strategic vision. Based on our experience, in many hospitals the answers to more than half of the diagnostic questions below is “no”, a clear sign that the organization has not yet made the connection between ongoing strategic direction and a sustainable value proposition.

Strategic Questions:

- Does your organization have a clear vision for how it wants to differentiate itself based on clinical value?
- Is the organization engaged and committed to using value differentiation as a competitive advantage?
- Do you develop objectives within your strategic plan that are aligned with performance improvement goals on measures of value?

Organizational Questions:

- Is there a clinical champion for demonstrating value within your organization’s senior leadership?
- Does this individual have support from administrative and clinical leaders to make changes in processes that are identified as deficient?
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- Are clinical performance improvement goals articulated and distributed throughout the organization?

- Is accountability for performance results part of the staffs’ job descriptions and performance evaluations?

**Implementation Questions:**

- Are the analytical support resources readily available to identify both strengths of and threats to your organization, assess identified problems and pinpoint their root cause?

- Have you integrated personnel responsible for value management within your clinical departments, and made them a part of the strategic planning process?

- Would everyone in the organization feel comfortable reporting a potential clinical risk, and know how to communicate this appropriately?

- Is your information technology infrastructure robust enough to provide timely, high-quality data about care delivery outcomes?

- Are clinical outcomes part of the routinely reported “business intelligence” of your organization?
Getting to Yes!

When the answer to many of the above questions is “no”, an evaluation of the effectiveness of the organization’s existing value management plan must be completed. Complying with external (usually mandated) requests for clinical data should not be misinterpreted as having a highly functioning organization that has integrated the concepts of value into broader strategy. Often the quality reporting processes are rote, and knowledge of what goes on is neither central to the organization’s priorities, nor does it penetrate through its leadership structure.

Organizations will not be seen as leaders unless they go beyond what is mandated, and make it an organizational mission to demonstrate value. Paul Levy, the CEO of Beth Israel Deaconess Medical Center (BIDMC) has used his blog “Running a Hospital” to highlight the steps that his organization has taken to improve clinical excellence. The hospital’s website now has a section called “BIDMC: Putting ourselves under a microscope” in which a range of outcomes – good and bad – are reported, with explanations about what is being done. Similarly the Mayo Clinic has pledged a long term commitment to achieving a value based culture and the systems and organization to support it. Growing out of a core value, “the needs of the patient comes first” articulated by William Mayo in 1910, Mayo’s current CEO, Dr. Denis Cortese, has focused on ensuring that there is integration and alignment in all efforts necessary to deliver value to patients (Viggiano, 2007).

Choosing a Sustainable Value Proposition

Every hospital will face a unique set of challenges if it wishes to truly establish quality as the core tenet supporting its value proposition. Challenges may be technical, political, financial, philosophical, cultural, behavioral or organizational, but they will occur at every step in the process.
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Each hospital will have to make its own choices as to the extent it wishes to move from left to right along each continuum, and the tactics it will adopt to address these issues.

Figure 2.

<table>
<thead>
<tr>
<th>PROCESS STEPS</th>
<th>Ease of Implementation</th>
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<tbody>
<tr>
<td>1. Establish an Institutional Vision</td>
<td>easier</td>
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<tr>
<td>2. Develop Organizational Structure</td>
<td>easier</td>
</tr>
<tr>
<td>3. Decide What to Measure</td>
<td>harder</td>
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<tr>
<td>4. Collect the Right Data</td>
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<td>5. Analyze the Relevant Data</td>
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<td>6. Interpret the Relevant Data</td>
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<tr>
<td>7. Create Internal Transparency</td>
<td>easier</td>
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<tr>
<td>8. Create External Transparency</td>
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Nevertheless it will be important to successfully manage an array of challenges in order to be a value leader. Some examples of challenges in each area include:

1. Establishing an Institutional Vision

   - Competing strategic priorities that consume the time and resources of senior leadership and the Board

   - Lack of a true “sponsor” that both understands the importance of value management and has the authority and desire to implement change
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- Lack of buy-in or interest from senior members of the medical staff
- Difficulty in identifying key metrics and quantifying the ROI (return on investment) associated with creating a value management plan

2. Creating the Appropriate Organizational Infrastructure

- Identifying the resources needed to achieve value objectives, and assigning them appropriately
- Putting an organizational structure in place – either through new hires or by reallocating existing personnel
- Developing incentives that truly align individual behavior with institutional direction

3. Deciding what to Measure

- Lack of evidence-based research that allows the institution to identify metrics that are truly correlated to quality, while also being comparable and collectable
- Achieving buy-in from multiple specialties for measures that are multi-disciplinary, especially when each specialty has its own interpretation of which metrics are important
- Establishing physician alignment around quality measures when there are multiple competing physician practices in the same specialty
- Pushing through any true consensus in a reasonable timeframe when attempting to define measures through broad collaboration (national organizations, regional alliances, etc.), especially since the measures that come out of these forums are typically “lowest-common denominator” to ensure none of the participants are disadvantaged
4. Collecting the Right Data

- High capital costs associated with instituting the needed sophisticated data systems
- Lack of interoperability / compatibility between existing systems that house critical data elements
- Difficulty in identifying and collecting longitudinal data from old paper records
- Differences in the IT infrastructure available to different hospitals within the System

5. Analyzing the Relevant Data

- Physician variability in the inputting of data, leading to situations where there is an “apples and oranges” issue during analysis
- Lack of good “quality assurance” processes to ensure data and analysis accuracy

6. Interpreting the Relevant Data

- Lack of risk adjustment leading to create skewed data sets that are often misinterpreted
- Difficulty in achieving broad-based support for analyses because of the covert perception associated with most risk-adjustment methodologies, often leading to the process being dismissed by payers, physicians and administrators

7. Creating Internal Transparency

- Instituting an environment in which quality measures can be shared on an institutional-, departmental- and clinician-level
- Level of pushback by physicians and staff that do not agree with
the final results once the clinician-level analysis is complete

8. Creating External Transparency

- Determining whether to be a “first mover” in the market (communicate your quality proposition before competition), or a “fast second”

- Choosing the right forum, format, and messaging

- Ensuring that the data is communicated in an appropriate manner. Once data becomes public, interpretation is no longer within the institution’s control

- Willingness to accept public criticism if there are areas where the institution is lacking. However, when done with good intentions, even when serious flaws are initially revealed, the public has responded positively to this level of transparency (Porter, 2006).
Pushing the Boundaries

Ultimately, choosing where to compete along the healthcare value curve is as relevant to a hospital’s future success as decisions around programmatic growth, physician alignment and capital expenditure, especially as the reimbursement environment continues to tighten over the next decade.

Figure 3.

**Value Curve:**
Correlating Quality and Service to Costs

Hospital leaders must identify which position their hospital occupies along the theoretical healthcare value curve (e.g., position A vs. position B in the accompanying graphic), and whether that position has been taken by choice - through collaborative effort and dedicated investment, or by chance – with environmental and competitive forces determining the hospital’s position. Going through a detailed assessment to determine the implications and benefits of moving along this curve is critical to the institution’s positioning in the market.

Just as important, knowing where your organization is positioned with
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respect to the value equation provides the platform from which to begin to push the boundary of the *value curve* and create a truly differentiated position in the market. Making tradeoffs between quality, service and cost become less necessary when organizations are committed to developing innovative new ways to provide the same levels of quality and service with greater efficiency and lower costs (position C).

What will provide the momentum to get your organization to understand its position in the market in terms of value management and key quality measures? Ask yourself that question today, and you’ll find you have more control over the final answer.
References


