

THE MANDATE FOR VALUE IN HEALTHCARE

The confluence of an economic crisis that has had a clear impact on the healthcare sector, and a growing consensus at the executive and legislative levels that healthcare reform can no longer be delayed, is driving a paradigm shift in the future direction of healthcare. This direction can be summarized in three points:

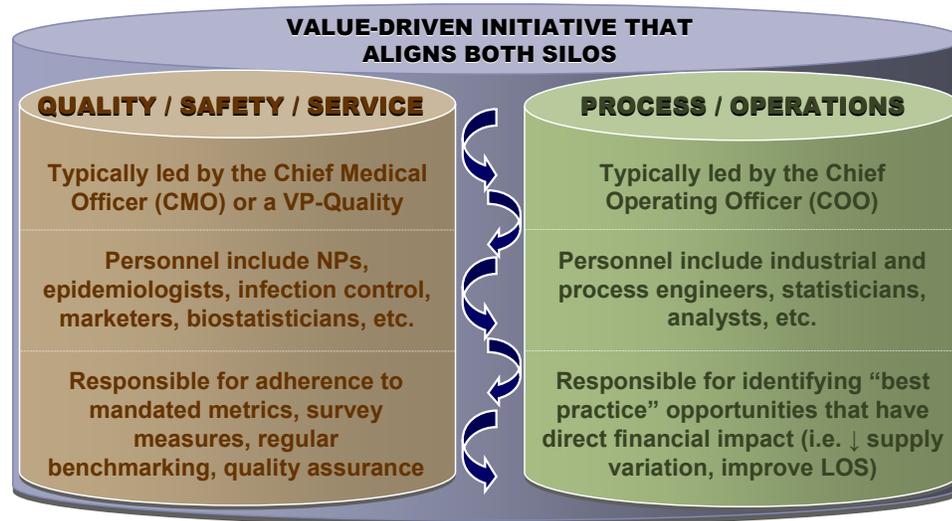
1. Payors (government and commercial) will put an increasing emphasis on efficiencies and cost-containment, attempting to slow growth in per capita healthcare costs through an emphasis on the use of evidence-based best practices in care delivery and technology.
2. Reimbursement differentials will be increasingly tied to demonstrable improvements in the quality and service of care delivery, and not to total volume.
3. Bundled payments will attempt to create more efficient care delivery pathways by shifting reimbursement emphasis from individual “transactions” to longitudinal “episodes”; further reinforcing the need for greater alignment between physicians and hospitals along a range of issues – including quality, continuity and standardization.

This direction has clear implications for the long-term strategy of any hospital. Investments will now need to be made in redefining and streamlining processes to enhance the overall quality, service and cost of delivering clinical care. As reimbursement structures change, maximizing value (as shown below), and not volume, will have the greatest positive impact on the financial viability of the institution.

$$\text{Value (V)} = \frac{\text{Quality (Q)} * \text{Service (S)}}{\text{Cost (C)}}$$

Over the next decade, many hospitals will be forced to shift their institutional strategy from an emphasis on *growth in total assets* to *return on total assets*. The first value variable to be addressed is typically *cost* – and many hospitals have already started to become more proactive regarding cost-containment. But successful providers will have to understand the impact of any cost-cutting initiatives on the quality and service they provide, and find ways to integrate clinical and operational advances in a manner that creates more value for patients, insurers and physicians. This will require hospitals to align the functional silos that exist today (as shown below) – transforming the way care is delivered to prosper in an environment that looks at value, and not volume, as the key determinant of success.

ALIGNING INSTITUTIONAL EFFORTS AROUND VALUE

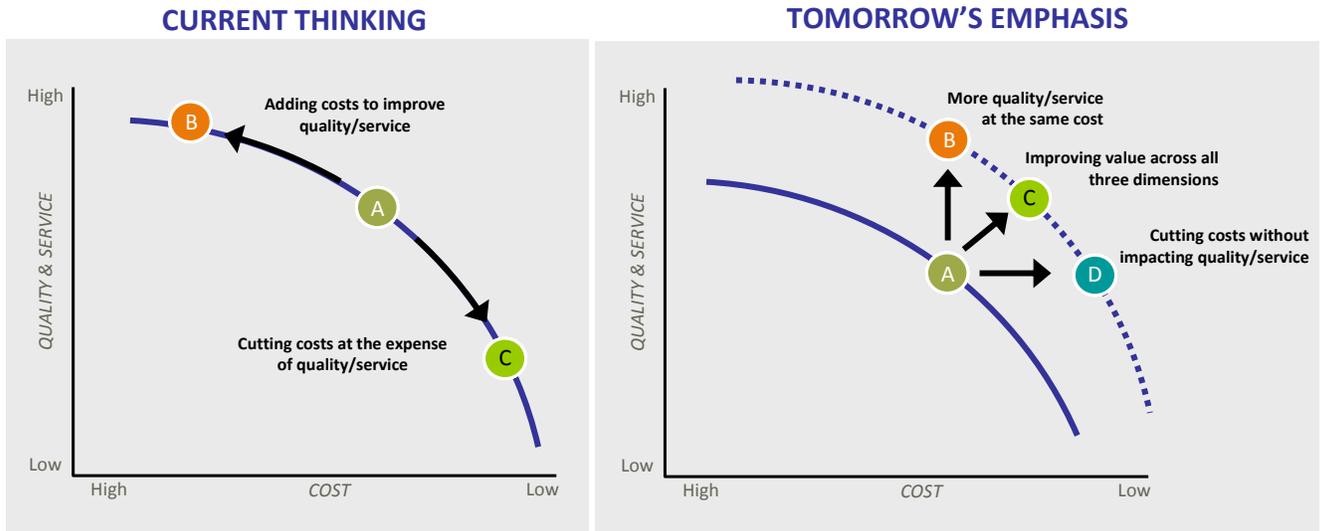


The resulting distinction in overall strategy is illustrated below. Too often, leadership believes they are required to make decisions that move the hospital from one point to another on an existing value curve, representing a trade-off between quality and service on the one hand, and cost on the other. This perception is a fallacy.

There are now numerous examples in healthcare where innovative models have resulted in an improvement in quality and service while also decreasing costs; thus, shifting the value curve outwards. Geisinger Clinic’s ProvenCare program for elective heart bypass surgery is an excellent example. In its first year, overall complications were reduced by 8% and the 30-day readmission rate dropped from 6.9% to 3.8% of all patients, while mean hospital charges fell 5% and ALOS improved 12%¹.

¹ Ault, A., New CABG Algorithm Raises Accountability Bar. Thoracic Surgery News, 3 (6), Nov-Dec 2007.

SHIFTING THE HEALTHCARE VALUE CURVE



There are many opportunities to improve the value associated with hospital operations, but identifying these initiatives and hardwiring them into the culture of the organization requires a concerted effort on the part of hospital leadership. In much the same way that hospitals have gone through meaningful programs to adopt and disseminate the use of new EMR systems to staff and physicians, hospitals will have to apply the same rigor to enhance the value paradigm in their operations.

Given the scale and diversity of operations, hospital leadership will have to prioritize – focusing initial operational redesign efforts in areas where there is the greatest benefit associated with improvement, and the highest probability for success. As in other industry sectors, the mindset of hospitals and their staff must shift to **Value Optimization** over time. Eventually, integrating evidence-based processes, protocols and metrics proven to advance quality and service in healthcare settings with the rigorous operational redesign techniques that have proven effective at reducing waste and trimming costs in other sectors, must become the standard operating procedure for hospitals.

For More Information, Contact the Authors:

Harvey J Makadon MD
Clinical Professor of Medicine | Harvard Medical School
Associate Partner | Kurt Salmon Associates
O 404.253.0105 | M 617.510.3464
hmakad@kurtsalmon.com

Farzan Bharucha
Senior Manager
Kurt Salmon Associates
O 404.253.0038 | 404.788.3851
fbharu@kurtsalmon.com