reconfiguring your delivery network

Consider your current system for delivering obstetrics care, cardiac care, cancer care, or any other major service line—the facilities, people, equipment, and processes involved across your entire organization. If you were asked to guarantee that each existing service line would meet rigorous demands for quality and cost, would you be willing to sign that guarantee?

Value-based payment is moving the nation’s healthcare providers squarely in the direction of committing to specified levels of quality and cost. However, few health systems today have the kind of structure and processes to take on the risk associated with meeting such demands.

Now, imagine that you could design your healthcare delivery network completely from scratch to achieve the best possible quality and efficiency.

Resource-intensive services, such as tertiary care, would be concentrated in just a few sites. Services that require broad access, such as primary care, would be arrayed in convenient locations throughout the service area. Low-acuity conditions would be treated in the least intensive settings, including through online interaction wherever appropriate. IT would support seamless sharing of information across the network. And management structure, clinician distribution, and incentives would support consistent, coordinated care across the network.

Such a network would be well-positioned to meet the growing expectations of payers, employers, and patients for low-cost, high-quality care.

But delivery networks grow and change incrementally, not only as a result of proactive planning, but also in reaction to new service demands or competition. Duplication of services may have arisen because of the volume-based incentives of fee-for-service payment. And sometimes a network grows opportunistically—for example, through a strategically desirable acquisition. Current executives may have had no role in decisions that led to the current system structure. This incremental process inevitably yields inefficiencies, including duplication of

AT A GLANCE

Five tactics can help heath systems overcome common hurdles they may encounter in their efforts to reconfigure their delivery networks for value-based payment:

> Develop a shared perspective of the changing market.
> Translate this market perspective into guiding principles.
> Adopt a “blueprint” approach.
> Carefully sequence changes with the full spectrum of services in mind.
> Fully engage physicians in the process.
INTEGRATION

resource-intensive services, facilities that are not conveniently located, and gaps in the continuum of care.

In today’s environment, healthcare organizations cannot be competitive if they are burdened with these inefficiencies. Payers are demanding lower costs and limiting their networks to providers that can meet those demands. Employers are contracting directly with providers that can deliver low-cost, high-quality, comprehensive care for certain high-volume and high-cost conditions. Consumers are seeking low-cost, convenient, high-quality service—including online interaction—that mirrors their retail experiences in other walks of life. And value-based payment is creating incentives for providers to efficiently manage the health of defined populations.

To succeed in this environment, many health systems need to restructure their delivery networks in fundamental ways. They need to systematically reconfigure their networks to be highly efficient, deliver consistent quality across all sites, and manage patients in the least intensive setting possible while still furnishing the necessary level of care.

The good news is that healthcare executives and boards are beginning to recognize the critical role that network configuration plays in future success. Having attempted to cut costs through traditional means, healthcare leaders recognize that the magnitude of reduction requires a change in cost structure. And they recognize that meaningful change to cost structure demands reconfiguring the delivery network.

Hurdles to Network Reconfiguration
Such an undertaking is not for the faint of heart, however. Reconfiguring and optimizing delivery networks involves significant changes that are complex, politically sensitive, and challenging to execute, creating significant hurdles for healthcare executives to overcome in this effort.

The size of the task. Reconfiguring a delivery network is a large and complex task that consists of four broad requirements:

> A new view of the healthcare system focused on value, outpatient care, and wellness rather than volume, inpatient care, and sickness
> An intensive analysis of current and future population distribution and health needs, traditional and nontraditional competition, and payer and purchaser demands
> Careful planning to match the result of this analysis with the appropriate service scope, scale, and location
> Significant changes in infrastructure, human resources, and intellectual capital

Already overwhelmed by the day-to-day demands of running a health system, healthcare executives may be challenged to execute a project of this scope.

Political sensitivities. Any change of this magnitude will be politically sensitive, especially where a health system’s clinical offerings are concerned. Management responsibilities and incentives may shift. Some services at some locations may no longer be offered. Some facilities may close. Although these changes will improve quality, efficiency, and competitiveness, there will be objections, and executives should be prepared to address them at every stage of the project.

The allure of incrementalism. Given the scope and political sensitivities, it is understandable that executives might attempt to reconfigure their networks in discrete pieces rather than fully executing a staged plan where each step is designed to facilitate comprehensive, coordinated change. Network reconfiguration requires tough choices, and focusing on only one area may be viewed as a way to minimize or delay broader, more difficult choices. In some situations, executives may choose to focus efforts on an individual service line because of pressing concerns about cost or quality. Although this type of incremental approach may decrease the initial effort, it also decreases the initial benefit. Meanwhile, there is an increase in the total time, effort, and investment involved in achieving the ultimate goals.

The choice between top down and bottom up. A critical decision in launching major organizational change is whether the effort should be orchestrated
from the top or from the bottom. In the top-down approach, senior executives drive decisions about network design, establish a timetable for implementation, and monitor progress. A bottom-up approach might involve a multidisciplinary steering committee overseeing the effort, with separate work groups assigned to recommend changes to certain facets of the network (for example, a specific service line).

The decision of whether to use the top-down or bottom-up approach is by no means clear. The top-down approach tends to result in significantly quicker planning. However, the bottom-up approach tends to result in stronger buy-in, a broader appetite for transformative change, and more lasting results.

The challenge of commitment. The more challenging the project, the more critical the need for a uniform and strongly held commitment. However, the more complex and sensitive the initiative, the harder it is to gain such a commitment. To build organizationwide commitment, the initiative must be championed from the top by both board members and senior executives. Systems embarking on network reconfiguration are finding that the challenge of gaining commitment sometimes leads to an incremental or scaled-back approach.

How to Overcome the Hurdles

Given these challenges, it is not surprising that many efforts at network reconfiguration fall short of their goals or don’t even get started. Yet each of these challenges can be overcome—and indeed, they must be if an organization is to become positioned for future success.

Following are five tactics to overcome the hurdles executives may encounter in reconfiguring their delivery network.

Develop a shared perspective of the changing market. An understanding of the changing healthcare market should be the foundation of any organizational strategy. This view should address issues such as trends in inpatient and outpatient volume, payer and purchaser expectations, consumerism, pricing and price transparency, and the regulatory environment. Focused analysis, education, and discussion may be necessary to achieve a shared understanding among senior management and the board. Once achieved, this shared perspective will provide an intellectual and strategic framework for the challenging decisions to come.

Translate this market perspective into guiding principles. Based on this market perspective, executives and boards should establish guiding principles for the organization’s direction—a vision of the system’s role in the changing market and keys to achieving that vision. These principles should inform all major strategic decisions, from physician recruitment to ambulatory initiatives to partnerships. It is critical that senior executives and the board fully support these principles. The organization’s market view and guiding principles should be constantly communicated throughout the organization. Every major change in the organization should be explicitly linked to the organization’s market view and guiding principles.

Adopt a “blueprint” approach. Reconfiguring a delivery network is a multiyear transformational process that should be staged based on each organization’s unique market, physician, facility, and competitive factors. This effort should be guided by a clear blueprint of the changes to be made, the key interdependencies, the sequence of changes, and the potential challenges. This blueprint also should identify strategic or market scenarios that could alter or accelerate the plan—for example, if the organization were to acquire a hospital that has duplicative services. A blueprint allows the organization to undertake this transition from a position of maximum flexibility, implementing changes that will keep the organization ahead of market expectations for lower costs, an increased outpatient presence, and ability to assume financial risk for a population’s health.

Take a comprehensive approach. Although many factors may encourage executives to limit their focus to a particular service line, there are no isolated decisions. Interdependencies among service lines are extensive, including staffing and facilities, both inpatient and outpatient. Reconfiguring even one service line will affect others, so any changes need to be carefully sequenced with the full spectrum of services in mind. A comprehensive approach to
planning and execution will avoid decisions to improve one service line that might cause problems for another, and will help ensure that the ultimate cost and quality goals are achieved as efficiently and effectively as possible.

Fully engage physicians in the process. Although improving cost structure is an important rationale for network reconfiguration, all changes should lead to enhanced quality of care. Therefore, physician partnership in the process is critical. In particular, physicians should be involved in determining how quality of care is being measured and in validating that quality will be improved by proposed network changes. Physicians will identify and validate key clinical nuances, interdependencies, and political issues associated with reconfiguration. If a bottom-up planning approach is used, physicians should be key players in the working groups. If a top-down approach is used, ideally at least two physicians should be part of the executive team leading the initiative, and extensive communication with other physicians should take place to assess how potential structural changes may affect quality and to gain physician buy-in to the plan.

Acting from a Position of Strength
The reconfiguration of delivery networks among the nation’s health systems is inevitable. Cost and competitive pressures will demand that organizations transform their cost structures, which requires significantly more efficient delivery networks. Changes of this scope cannot be made in response to an urgent need to cut costs. Yet payer demands and competitive threats can emerge suddenly, diminishing financial strength and strategic flexibility. Hospital executives should seize the opportunity to make these decisions today, while the greatest variety of options still exists.

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