RESEARCH REPORT EXCERPT

Advisory Board

Priming for Growth

How to overcome the major barriers to achieving outsized revenue growth

PUBLISHED BY

Health Care Advisory Board

advisory.com/research

programinquiries@advisory.com

Executive Summary

The financial performance of hospitals and health systems has reached an all-time low, and margin pressures continue to intensify over time. Organizations are bombarded with revenue threats—direct pricing cuts, new payment models, site-of-care shifts, and more—along with rising operating costs. Together, these factors mean that few leaders will be able to achieve sustainable margins through either expense reduction or revenue growth alone. Instead, hospital and health system leaders will need to meaningfully improve both their cost and revenue performance to execute a comprehensive margin management playbook.

Across 2017 and 2018, the Health Care Advisory Board investigated how organizations can best develop both the cost discipline and revenue growth strategies necessary to support long-term sustainability. On the revenue growth front, we explored best-in-class approaches to reducing avoidable revenue erosion, winning an increased share of lucrative patient volumes, and exploring opportunities to diversify into new revenue streams. In this publication, we take a deeper look at that second theme—growing share—and ask the critical questions: Why do hospitals and health systems struggle to win lucrative volumes today? And what can leaders change internally to resolve that struggle? To answer these questions, we explore both the growth strategies necessary to achieve success and the underlying organizational barriers, which all too often unnecessarily inhibit progress.

Read on for details about the margin challenge hospitals and health systems are facing, case profiles of organizations addressing internal barriers to growth head-on, and insights on how you can help your institution achieve a sustainable future.

Table of Contents

IN FULL RESEARCH REPORT

Summary of conclusions

Introduction: Confronting the margin challenge

INCLUDED IN THIS EXCERPT

Addressing the underlying barriers to growth

- Achieving true systemness
- Expanding consumer access
- Enhancing network integrity
- Competing on financial value
- Establishing brand affinity

Conclusion

EXCERPT

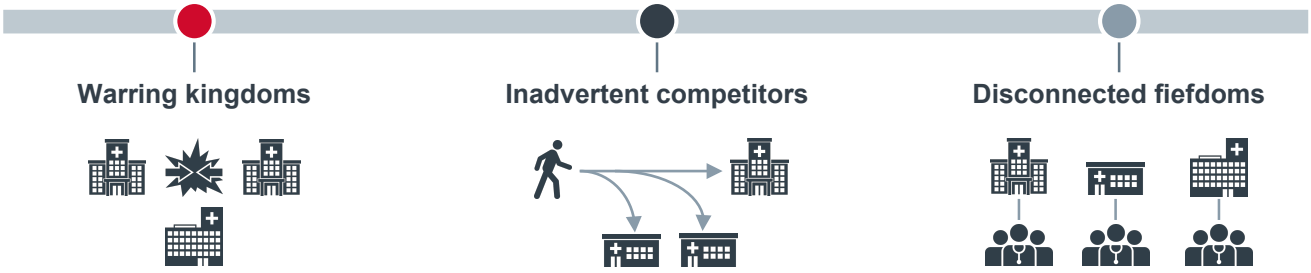
Addressing the underlying barriers to growth

System-wide coordination remains a central struggle

The most foundational step that organizations can take to position themselves for effective growth is to reorient their assets and leaders—regardless of the organization's size—to focus on the overall system's well-being, as opposed to any one individual or facility's success.

Often, organizations have grown by acquiring new assets or engaging in novel partnerships, but they have failed to rework their internal processes to motivate and reward cross-system collaboration. This lack of system alignment can result in a range of negative outcomes. Different facilities may actively compete against each other, accidentally get in each other's way, or simply behave in such a disconnected manner that the myriad potential benefits of systemness never come to fruition.

Multiple manifestations of poor system alignment



Warring kingdoms	Inadvertent competitors	Disconnected fiefdoms
Facilities actively engage in unproductive intra-system competition	Facilities accidentally compete for the same volumes	Facilities operate disparately, missing opportunities to reap the benefits of coordination and collaboration
Examples		
To avoid losing revenue, hospitals refuse to engage in transfer program to ensure patients receive care at appropriately acute facility	*Two facilities independently build cath labs in close proximity when the market only requires one*	*No standardized system-wide scheduling and/or referral management platform*

To overcome this fragmentation and achieve true systemness, hospitals and health systems need to carefully consider how they can promote a system-oriented focus at every level of the organization by:

- Modernizing leaderships structures
- Orienting executive incentives toward system well-being
- Reprioritizing facility-level revenue growth targets
- Ensuring the capital allocation process promotes system-wide investment

Source: Health Care Advisory Board interviews and analysis.

Unifying leadership over an expansive enterprise

Through the recent era of health system expansion, many organizations have continued to rely on traditional leadership structures that reinforce facility-focused, inpatient care as the center of the enterprise. Few organizations have updated their organizational model to support the needs of their more expansive, often more ambulatory-focused, systems. Executives must consider how to elevate and unify their leadership structures to clarify and consolidate oversight, authority, and accountability.

CASE EXAMPLE

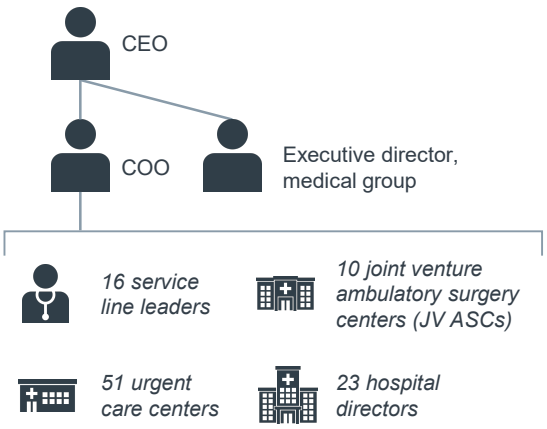
Northwell Health

23-hospital health system • 665+ outpatient facilities • Long Island, NY

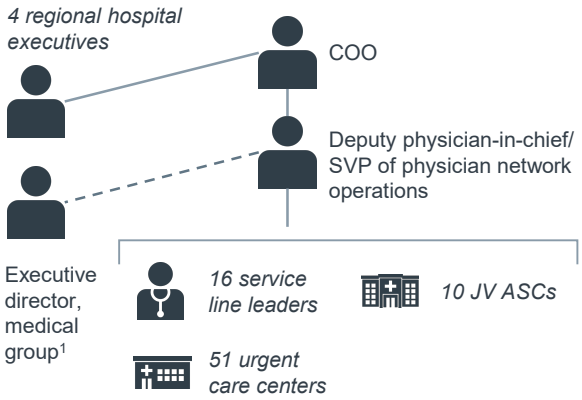
At Northwell Health, the system's chief operating officer (COO) was directly responsible for several disparate assets. He oversaw all 23 hospitals and the ambulatory footprint, but had no reporting relationship with the medical group. As Northwell continued to expand, the leadership team realized that this organizational structure inadvertently separated oversight over ambulatory operations, which limited coordination and collaboration—and required too much of a single executive.

To mitigate this, Northwell appointed a respected physician leader as deputy physician-in-chief/SVP of physician network operations, who now oversees all of the organization's ambulatory assets and has a dotted-line relationship with the medical group. The 23 hospitals now report through four regional executives who report up to the COO. The ambulatory leader focuses his full attention on creating an integrated strategy across all ambulatory sites and physician offices—a responsibility not previously held by any executive within the system.

Initial structure lacked cohesion and clarity



New model offers cross-system ambulatory oversight, authority



Primary internal barriers addressed

- Overly devolved decision-making authority
- Facility-centric leadership structures

1) Responsibilities include quality management, analytics, service excellence, and EMR optimization.

Source: Health Care Advisory Board interviews and analysis.

Ensuring leaders' incentives align with system goals

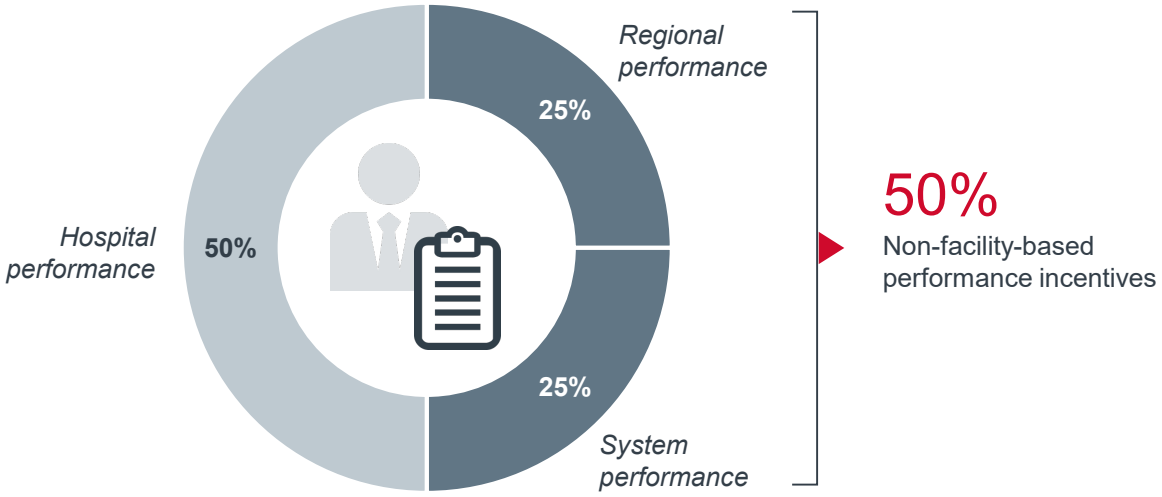
Even the most carefully designed leadership structure will not function as planned without some degree of system-oriented executive compensation. Historically, most health systems have primarily rewarded facility leaders when their facilities were successful. This approach, however, represents an outdated model based around legacy inpatient goals and lacks a true incentive that rewards cross-system collaboration.

CASE EXAMPLE

Intermountain Healthcare
22-hospital health system • Salt Lake City, UT

To motivate cross-system collaboration, Intermountain Healthcare reworked compensation models to reward individual hospital leaders for system performance instead of purely emphasizing local success. Hospital administrators have 50% of their bonus tied to hospital performance and 50% tied to non-facility-based performance incentives, a blend of regional performance and system performance.

Composition of hospital administrator's incentive plan



Primary internal barrier addressed

- Misaligned financial incentives

Source: Health Care Advisory Board interviews and analysis.

Setting system-oriented revenue targets

Even if leadership structures and incentives are appropriately aligned with system goals, revenue targets focused exclusively on unrestrained growth may still encourage counterproductive competition. Executives must ensure facility revenue goals are rightsized to minimize this unhelpful competition.

CASE EXAMPLE

Dartmouth-Hitchcock Health

3-hospital health system • Lebanon, NH

Dartmouth-Hitchcock Health strategically sets annual revenue targets for their individual care sites based on system-wide objectives. In any given year, while they have a system-level growth goal, some facilities are actually given revenue growth and volume goals that are lower than the previous year's targets. Therefore, when executives implement initiatives that encourage top-of-site care, potentially shifting patients and revenue to other sites, they are not inadvertently punished.

Executive team sets revenue targets for each facility

Facility performance targets may reflect positive or negative annual growth

Incentives promote care coordination over limitless growth

31.7% Increase in net income from March 2017 to March 2018

Primary internal barrier addressed

- Counterproductive performance goals

Source: Haefner M, "Dartmouth-Hitchcock Records $58.1M Turnaround in Operating Results," *Beckers Healthcare*, May 30, 2018; Health Care Advisory Board interviews and analysis.

Positioning system goals at the center of capital allocation

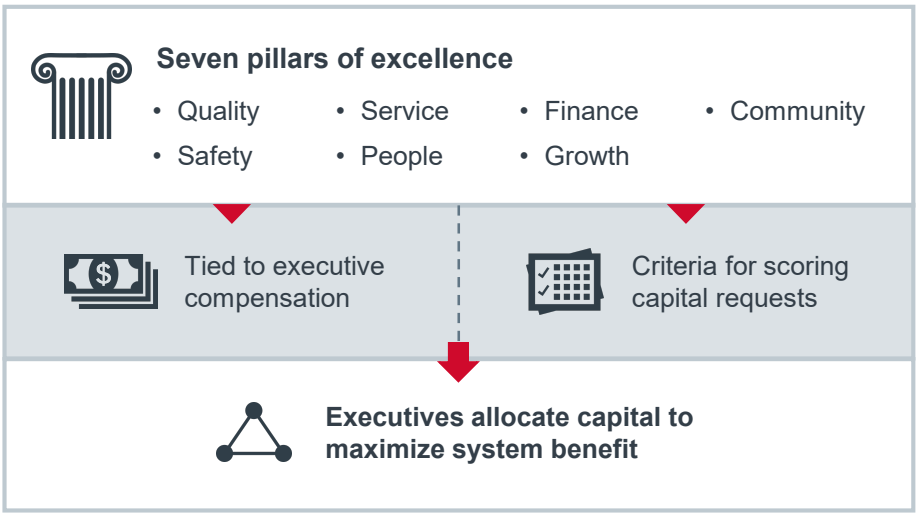
Finally, beyond updating leadership structures, incentives, and goals, organizations also need to reconsider how they are reinvesting in the system to drive enterprise-wide growth.

CASE EXAMPLE

Sharp HealthCare
7-hospital integrated health system • San Diego, CA

Like many large health systems, Sharp HealthCare has a centralized, system-wide process for allocating capital. What sets Sharp's model apart, however, is that it aligns executive compensation and the criteria for assessing capital project requests so that leaders are motivated to allocate capital to maximize system benefit.

Cross-system leaders—including the system CEO, health plan CEO, medical group CEOs, hospital CEOs, corporate SVPs, and EVP of hospital operations—meet semiannually to jointly review capital requests in excess of $100,000. Each leader rates the requests based on projected impact on the system's seven pillars of excellence—the same seven pillars that are part of the criteria for the executives' compensation. Through this model, executives proposing capital investments need to make the case that funding their initiatives benefits the entire enterprise.



18 Consecutive years of enterprise market share growth

Primary internal barrier addressed
- Facility-oriented capital allocation

Source: Health Care Advisory Board interviews and analysis.

Achieving true systemness

Ultimately, for health systems to achieve true systemness, they must consider how they will balance these four approaches—organizational design, financial incentives, operating budgets, and capital allocation—to unite disparate facilities and leaders into a single system. Systems will require different solutions, but all organizations need to focus energy on system performance, not just facility performance, if they hope to harness the benefits of the enterprises they have built to capture growth in lucrative services.

Once systems make these tactical changes, a culture of systemness will follow. Furthermore, these system-enabling tools form a foundation that will support success across all of the system's other growth imperatives: improving access, prioritizing desirable referrals, delivering financial value to purchasers and consumers, and creating a memorable and effective brand strategy.

Key components of case studies

Northwell Health	Intermountain Healthcare	Dartmouth-Hitchcock Health	Sharp HealthCare
Initiative			
Appointed new executive to oversee all ambulatory assets	Rebalanced facility leaders' incentives to include facility and system performance	Created system-oriented growth targets for facility-level leaders	Aligned both capital planning process and executive incentives with system-level goals
Outcome			
Elevated a unified ambulatory leadership structure to **clarify and consolidate oversight, authority, and accountability**	Established incentives to **reward cross-facility collaboration**	Modernized facility-level goals to **minimize unproductive intra-system competition**	Implemented process to better **invest in initiatives that advance system-centric goals**
Primary internal barrier(s) addressed			
• Overly devolved decision-making authority • Facility-centric leadership structures	• Misaligned financial incentives	• Counterproductive performance goals	• Facility-oriented capital allocation

Executive discussion questions

- What are the major internal barriers preventing our organization from deriving the maximum possible benefit from effective cross-system collaboration?
- How do we motivate and reward system-level growth our organization? And how does this compare to our incentives driving facility-centric growth?
- What are short-term changes we can make to drive a stronger enterprise-wide system focus? What are long-term strategies?

Source: Health Care Advisory Board interviews and analysis.

Health Care Advisory Board

Project Director

Gillian Michaelson

Research Team

Ari Prescott

Rishi Sachdev

Program Leadership

Rob Lazerow

David Willis

Design Consultant

Stefanie Kuchta

This is an Advisory Board publication, one of the many resources available to members.

For over 35 years, Advisory Board has helped executives work smarter and faster by providing clarity on health care's most pressing issues and strategies for addressing these issues. Our team of 350 health care experts harnesses a network of 4,400+ member health care organizations to discover and share the industry's most successful and progressive ideas.

Advisory Board is a best practice research firm serving the health care industry. We provide strategic guidance, thought leadership, market forecasting, and implementation resources. For more information about our services—including webinars, analytics, expert insight, and more—visit advisory.com.

Advisory Board

655 New York Avenue NW, Washington DC 20001
202-266-5600 | **advisory.com**