survive or thrive?
becoming a successful value-based enterprise

For provider organizations, the value journey starts by developing an understanding of the characteristics of value-based enterprises and assessing organizational readiness for value.

Healthcare reform no longer is a hypothetical notion. A fundamental shift in payment models and incentive structures—in which economic rewards increasingly are tethered to quality, cost, and access to care—has ushered in the era of value. Many healthcare organizations are finding that transitioning to a value-based world—in a financially sustainable manner—is one of their greatest challenges. Providers that successfully navigate this value journey will design strategies proactively and cultivate key competencies with the expressed intention of evolving into value-based enterprises. The first steps in this process are understanding the characteristics of a successful value-based enterprise and gauging the organization’s readiness for this transition.

Veering Toward Value
In the past, participation in value-based payment programs or pilots was merely encouraged. Now, regulatory, financial, and legislative mandates—largely under the auspices of the Affordable Care Act (ACA)—are forcing providers to participate on a systemwide basis. In January, the U.S. Department of Health & Human Services (HHS) announced its intent to tie 30 percent of Medicare’s provider payments to value-based payment models by 2016, with the share rising to 50 percent by 2018. This move marks the first time that HHS has set concrete goals for phasing in value-based
payment. Commercial payers are following suit. Just days after the HHS announcement, six major health systems and four of the nation’s top health insurers announced the formation of a consortium known as the Health Care Transformation Task Force, with the stated goal of putting 75 percent of their business into value-based arrangements by 2020.a

The momentum behind the volume-to-value migration is gathering steam. Healthcare organizations have little choice but to prepare to join the movement.

**Becoming a Value-Based Enterprise**

Regardless of one’s opinion about the effectiveness of payment reform at improving care quality and lowering costs, resisting change or simply bracing for it is not sustainable—nor is it a strategy. Organizations that continue to conduct “business as usual” should expect to see their usual business drop. To survive, let alone thrive, in the evolving healthcare environment, hospitals and healthcare systems must position themselves to become value-based enterprises. In other words, they must become optimally integrated, scaled, rationalized, informed, and responsive.

**Achieving optimal integration.** Historically, care delivery by physicians, hospitals, ancillary services, and other postacute care providers has been segmented into autonomous compartments. A truly integrated system does not perpetuate these departmental or organizational silos. Instead, it breaks down clinical and administrative barriers to promote clinical, financial, operational, technological, and cultural alignment.

**Realizing economies of scale.** From a clinical perspective, systems that can achieve minimum economies of scale are better able to improve quality and efficiency while drawing on experience gained through providing high-volume care to drive down costs. From a business standpoint, economies of scale allow systems to allocate overhead across a larger revenue base and to use resources and deploy capital strategically, among other benefits.

**Rationalizing the system.** As industry consolidation continues, health systems should carefully evaluate and redesign how, when, and where they provide health services. Rationalized systems are well-positioned to enhance the efficiency and efficacy of care delivery across settings in the face of declining patient volume, cost containment pressures, and quality requirements, as well as other systemwide challenges and local market demands.

**Managing information.** Successful value-based enterprises demonstrate an awareness of what they need to know now and in the future. They have the infrastructure to acquire and manage the continuous flow of relevant data. Most important, they have a clear vision for converting data into actionable information to use for decision making.

**Being responsive.** Systems with responsive governance and leadership structures can effectively leverage a critical understanding of systemwide trends and local market dynamics, empirical data, and a consistent stream of qualitative insights from internal and external stakeholders. This structure enables leaders to guide their organizations confidently and decisively in times of accelerated change and great uncertainty.

**Assessing Organizational Readiness**

The practical path to value begins with a critical evaluation of the organization’s core competencies and overall readiness to make the transition. By performing a value-based readiness assessment, administrative and clinical leaders can develop a complete picture of their organization and its ability to evolve—strategically, financially, operationally, and technologically.

A comprehensive measure of an organization’s readiness may be drawn from key indicators across five specific domains, as shown in the reference.
These domains include a strong organizational foundation, care delivery transformation, effective payment models, a comprehensive provider network, and robust clinical informatics.

**Strong organizational foundation.** Assessing an organization’s readiness to become a value-based enterprise begins with testing the strength of its foundation. Is there a culture of continuous quality and performance improvement? Is leadership committed to making the necessary changes to guide the organization forward? Are the appropriate legal and organizational structures in place? Is the organization financially strong? (Financial strength makes it easier to pursue transformational goals and invest in the infrastructure needed to drive change.) Value-based transformation hinges on the convergence of operational, clinical, financial, and strategic initiatives and on leaders’ ability to attain organizational buy-in and support at all levels. Thus, a strong organizational foundation is a prerequisite for establishing systemwide
value-based readiness and greater accountability from providers and leaders.

**Care delivery transformation.** Operational efficiencies, systemwide coordination, clinical innovation, desirable outcomes, and provider/patient engagement are demonstrable characteristics of an integrated delivery system. Successful implementation of initiatives in these areas requires that organizations recognize the need for provider collaboration, redesign care delivery strategies and clinical protocols when necessary, and consistently consider the full continuum of care. Accordingly, organizations that are ready for the shift to value often use multidisciplinary teams to secure buy-in for key clinical initiatives and to address patients’ nonclinical factors, such as access to care (e.g., transportation), communication skills, living situation, and/or religious beliefs. In addition, patients and their families are engaged and able to affect outcomes.

**Effective payment models.** Value-ready organizations are proactively reducing their reliance on fee-for-service arrangements that encourage volume-based business models. Becoming a value-based enterprise requires hospitals and health systems to implement payment models that are aligned with their clinical goals, thereby improving care quality, cost awareness, and financial accountability. Physician compensation and incentive structures also should align with clinical goals and strategies. To appropriately pace clinical and financial integration, payment models should focus on phasing in payer populations (e.g., Medicare Advantage, commercial) as competencies are developed.

**Comprehensive provider network.** Ensuring adequate access to key clinical services (e.g., primary care) and providing care continuity are key capabilities of any value-based enterprise. Acquiring these capabilities often requires the establishment of a comprehensive provider network. The composition of such a network is not limited to owned facilities and employed providers but may also include other provider members based on various alignment models and partnerships. Successful provider partnerships enable a network to expand geographically and provide patients with alternative access points for clinical care. However, as the network evolves and other partnerships or collaborations are considered, networks cannot lose sight of coordination, integration, and scalability. Thus, accountability and performance criteria should be established to enforce clinical standards. These criteria should be incorporated into the framework for physician leadership, management, and communications.

**Robust clinical informatics.** Organizations positioned for value-based care delivery have advanced clinical and financial data and reporting capabilities. Because information sharing is essential for identifying and disseminating quality and safety best practices across the system, organizations require strategic IT investments (e.g., business intelligence, electronic data interchange, data analytics) to support this effort. Sophisticated clinical analytic tools help identify care gaps and provide clinical decision support, predictive modeling, and outcomes and performance measurement, thereby enabling organizations to be informed and responsive.

**Case Study: Concord Hospital**

An organization’s size, past success, or current market position will not shield it from the force of payment reform. New payment models and incentive structures will affect all hospitals and provider groups, forcing healthcare organizations to closely—and honestly—examine their ability to flourish in a value-based environment.

Concord Hospital—a 295-bed community hospital in New Hampshire with a service area of more than 250,000 people—historically has enjoyed a solid financial position with consistently positive operating margins, limited debt, and strong cash reserves. But Concord’s leadership has not allowed the hospital’s strong clinical and financial performance to make it complacent. “We are convinced that the shift from volume to value requires us to proactively dedicate ourselves to managing the health of the population,”
The long-term success of hospitals and health systems depends on how effectively their leaders respond to immediate changes by understanding their organization’s readiness for value and embarking on strategies for becoming a thriving value-based enterprise.

preventive services, and efficient care delivery,” says Concord Hospital president and CEO Robert Steigmeyer.

Concord’s leadership recognizes both the opportunities and challenges associated with the looming volume-to-value transition. To address these challenges, Concord ensured that its strategic-planning process would incorporate a value-based enterprise perspective. Concord assembled a steering committee with representation from the core leadership team and the medical staff, and tasked the committee with positioning the system to meet community needs in the context of the changing healthcare environment in the state and the hospital’s evolution as a value-based enterprise.

Through its internally and externally based assessment tools, Concord recognized that the clinical informatics, provider network, and organizational foundation domains were areas of strength and provided a stable platform for continued enhancement. The payment model domain, however, represented opportunities for further development and highlighted the importance of advancing discussions and new models with local and national payers.

Upon completion of the assessment and the broader strategic-planning efforts, Concord established five strategic areas of focus:

> Leading with quality, safety, and service
> Expanding regional presence
> Managing population health
> Forming collaborative relationships with payers
> Pursuing affiliations and partnerships

Supporting each focus area are specific initiatives and tactics, clearly articulated action steps, defined accountabilities and time frames, key metrics, and measurable targets for executing each strategy. The strategic-planning process was conducted in advance of Concord’s budgeting process, thus allowing the organization to incorporate resource needs into the operating and capital budgets. Careful consideration was given to the pacing of these initiatives because many are still nonreimbursable in a fee-for-service environment. The stakeholders were involved throughout the assessment and planning process to provide all parties with a complete picture of the organization’s position and vision and to bolster the already strong support from key individuals and groups.

Concord has implemented multiple tactics in support of its strategies, particularly those related to value-based care and population health. Prevention campaigns are being developed and implemented across the system to reduce the risk of diabetes, lung disease, heart disease, falls among the elderly, and obesity. Pilot programs also are in progress to further integrate behavioral health providers into primary care practices, with a recognition of the need to apply and evaluate metrics, such as utilization of depression screenings and patient health questionnaires. Tactics were identified and prioritized, with heavy consideration given to initiatives in which data analytics were or could be deployed in support of practicing evidence-based medicine. These efforts, and a host of others, are leading Concord forward as it embraces the transition to value.

“Our strategic planning and value-based assessment enabled us to solidify the path toward our organizational goals,” Steigmeyer says. “The process reinforced our commitment to advancing...
care quality and population health and positioned us to be successful in a value-based healthcare environment."

**Developing a Dual Strategy**

Even as systemwide payment reform compels hospitals and health systems to transform their thinking about the provision and payment of care, many of these organizations continue to operate in an environment where fee-for-service payment still predominates. The challenge for these organizations will be to continue to function effectively under the fee-for-service model while positioning themselves for the value-based future.

The point that must be stressed is that meeting this challenge is a matter of necessity. The long-term success of hospitals and health systems depends on how effectively their leaders respond to immediate changes by understanding their organization’s readiness for value and embarking on strategies for becoming a thriving value-based enterprise. 

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