

John Fink



healthcare financial management association hfma.org

## aligning with physicians to regionalize services

Organizations with multiple hospitals and other facilities spread over a large region can rightly call themselves *health systems* only if they have effective coordination of clinical services across their service areas.

### AT A GLANCE

- > When effectively designed and implemented, regionalization allows a health system to coordinate care, eliminate redundancies, reduce costs, optimize resource utilization, and improve outcomes.
- > The preferred model to manage service lines regionally will depend on each facility's capabilities and the willingness of physicians to accept changes in clinical delivery.
- > Health systems can overcome physicians' objections to regionalization by implementing a hospital-physician alignment structure that gives a measure of shared control in the management of the organization.

Health care is a crowded and competitive environment, evidenced by the fact that many health systems operate several hospitals in close proximity to one another. Although some systems have operated this way for decades, others have only recently found themselves in this position as a result of merging with or acquiring nearby facilities. The facilities are technically connected through a single health system, but a vast disconnect often exists between or among them: The hospitals frequently provide overlapping clinical services with little or no coordination or sharing of best practices.

So what really makes them a "health system"? Is it that they share a layer of administrative leadership or support services such as IT, revenue cycle, and human resources? Not really. If a health system's core competency is the delivery of healthcare services, then its primary focus should be on the effective coordination of clinical services throughout its service area.

Hospitals within a health system should work in a coordinated fashion to deliver high-quality, low-cost healthcare services. Health systems that are striving to be population health managers should be able to provide a comprehensive continuum of services across all levels of acuity. If they are entering full-risk arrangements, the need for them to produce outstanding clinical outcomes at low cost becomes of paramount importance. To this end, health systems should develop and implement best practices that translate into exemplary clinical operations, communication with patients, and supply chain management, among other facets, across all of their facilities in the region. By managing service lines at a regional level and aligning with physicians through shared service-line control, fragmented facilities can transform into a true *system* that improves *health*.

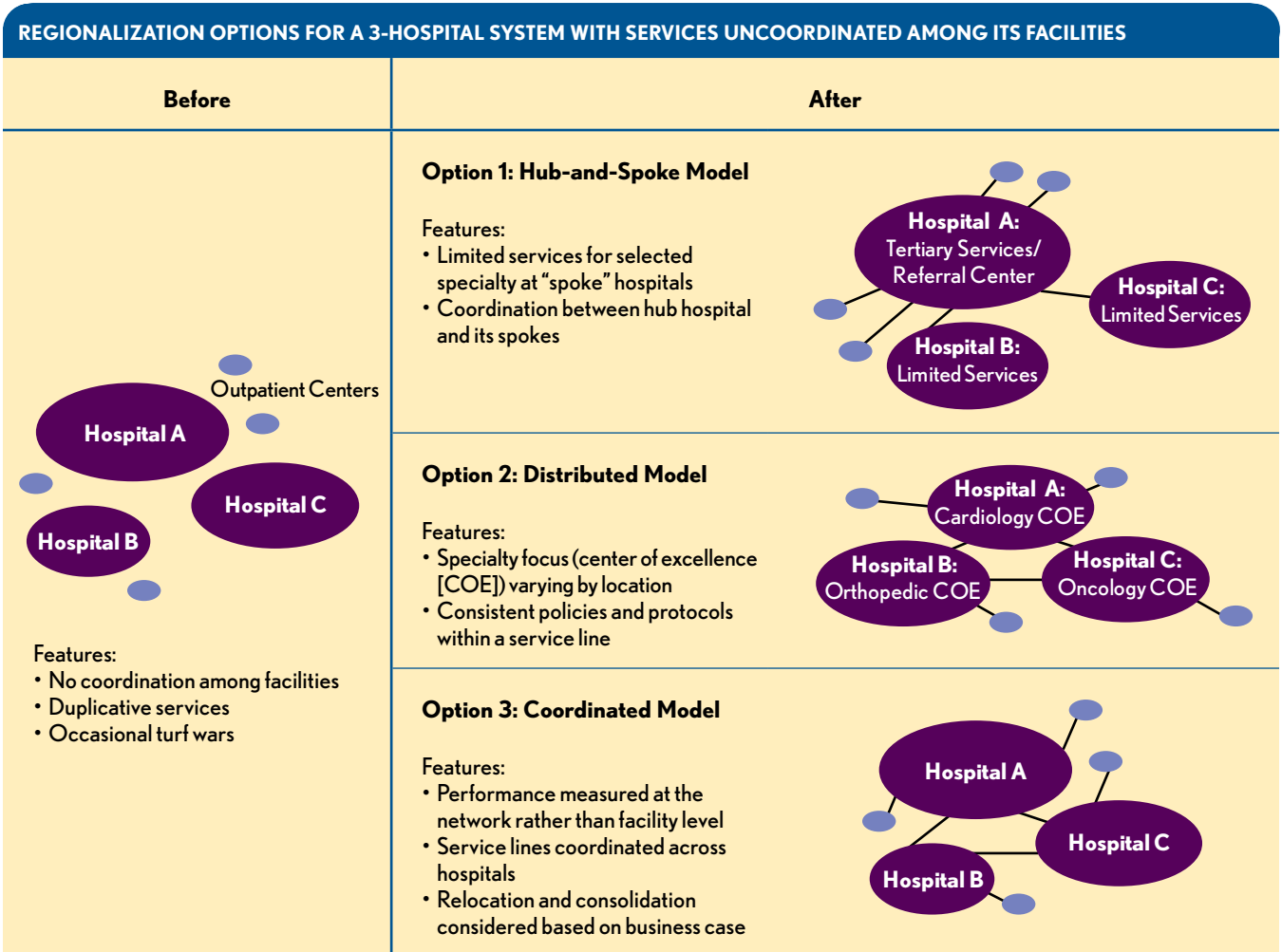
**Why Regionalize?**

Regionalization refers to the coordination, centralization, and/or colocation of similar service offerings within a given service area. When effectively designed and implemented, regionalization allows a health system to coordinate care, eliminate redundancies, reduce costs, optimize resource utilization, and improve outcomes.

On the surface, decisions to eliminate duplication and standardize clinical processes within a system may seem obvious, yet few organizations have successfully accomplished this objective. The cultural and political barriers are often perceived to be too steep to overcome. But in a payment

environment that increasingly rewards efficiency, coordination, and quality, health systems can no longer afford to ignore the strategic and financial opportunities that regionalization presents.

Providing comprehensive and coordinated care to manage the health of a population, produce outstanding clinical outcomes, and reduce costs is particularly important for health systems that are entering arrangements with greater risk. Health systems that manage and maximize clinical service lines across a regional network are better-positioned to provide accessible, high-quality care at lower costs.



Services delivered by a three-hospital system before it moved to regionalized operations were uncoordinated across the system’s facilities. This exhibit depicts the system’s three options for regionalization, in which each service line is coordinated across facilities using common policies, protocols, and administrative and physician leadership.

## Funds-Flow Adjustments in the Transition to Regionalization

Under a regional approach for managing a health system, the focus on financial performance should shift from the individual facilities to regionally coordinated service lines. However, a transition period may be required as political and cultural barriers are overcome and silos are bridged. In this case, any potentially negative financial impact to an individual facility can be eliminated through a funds-flow adjustment among facilities. Here is a simple example.

Let's assume that a health system has decided to work with its orthopedic surgeons to regionalize orthopedic services across several hospitals in a region. All orthopedics will be managed at the regional level to optimize the value provided to the community. Volume may be redirected among facilities, and performance improvement opportunities will be pursued. As a result, significant financial improvements for the region are anticipated. However, absent appropriate adjustments, the effect may not be positive for all hospitals.

The regional organization may decide to significantly reduce or eliminate orthopedics at a given facility. To make this decision, it is necessary to calculate a base financial performance for the regional service line and each hospital. Financial improvements of the regional service line would be shared among all hospitals based on their baseline share of orthopedic services.

*Baseline performance determination.* To calculate the baseline performance of the regional service line, the health system must develop a regional service line profit-and-loss statement from the revenue, direct expenses, and indirect expenses of each hospital.

*Annual funds-flow adjustments.* The improvement in the net contribution of the regional service line will be calculated annually, with funds to be redistributed among hospitals. Redistribution will be based on each hospital's baseline share of the orthopedic regional service line's net revenue. Major implications of this policy include the following:

- > All organizations will be motivated to have cases performed where they can generate the highest contribution for the region.
- > A hospital could incur a major increase in its number of orthopedic cases but would benefit only if the network as a whole experiences financial improvement.
- > Each hospital will receive a share of the network's financial improvement based on the hospital's base year percentage of total network revenue regardless of whether the hospital's volume, revenue, or costs increase or decrease.

*Calculation and timing of payments.* The performance of the regional service line will be based on the combination of each facility's operations. The overall increase or decrease in the contribution to the network will be compared with baseline performance. The net change will be shared among the hospitals based on each hospital's historical percentage of revenue for the regional service line. An annual reconciliation will be calculated to determine the redistribution of funds to individual hospitals.

*Operating and capital budgeting.* Additional funds-flow adjustments will be made based on operating and capital-budgeting recommendations from management of the regional service line and decisions made by system leadership.

### Implementing Regional Service-Line Planning and Management

The preferred model to manage service lines across a health system’s geographic area will depend on each facility’s capabilities and the willingness of physicians to accept changes in clinical delivery. Regionalization typically follows one of three models:

- > The *hub-and-spoke* model, in which tertiary facilities act as hubs where complex specialty services are provided, and smaller hospitals within the system serve as spokes feeding patients to the tertiary centers
- > The *distributed* model, in which centers of excellence for select service lines are established across system hospitals, so that different hospitals act as the hub for each service line
- > The *coordinated* model, in which service lines are coordinated across hospitals and performance is measured at the regional rather than facility level

When a service line is managed across a network, success is best measured at the regional level. Hospital leaders shift their own focus and incentives, and those of staff, beyond a single facility and toward the region. Planning can then proceed with consideration of each hospital’s capabilities, existing outpatient

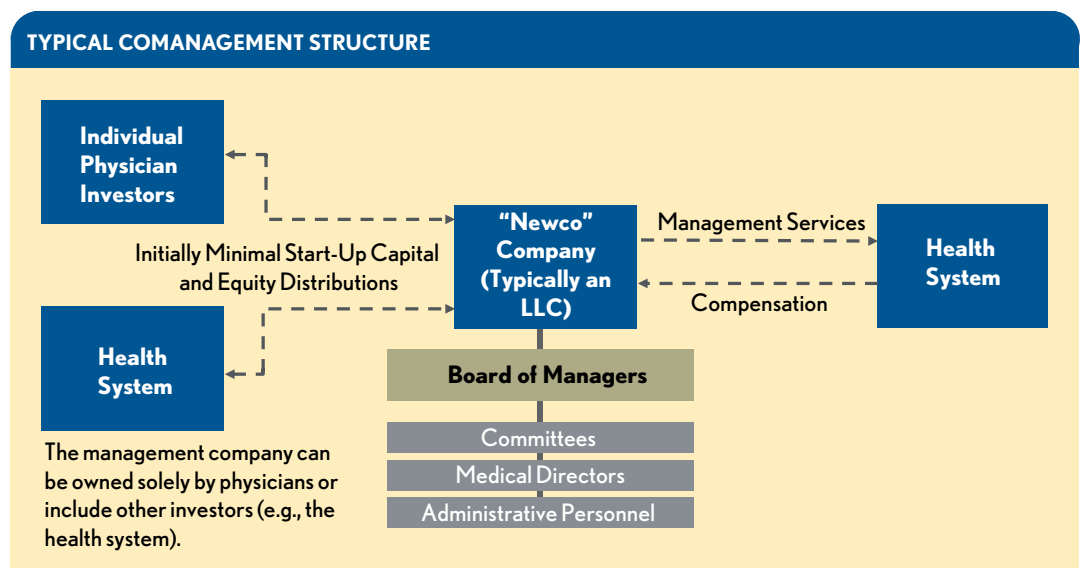
facilities, physician locations, and competitive environment.

When a health system’s stakeholders all are focused on the success of the region, the system can better define its shared vision and goals for the regional service line, the role and programmatic focus of each facility, and the organizational and management structure across all campuses. The preferred structure should specify how services will be managed to foster coordination across all of the health system’s hospitals and outpatient facilities. Important considerations include the programmatic footprint identified at each campus and the resulting implications for patient flow, staffing, and operational efficiency.

Under this regional approach, operating and capital budgets for each regional service line should feed into each hospital’s budget and the health system’s budget. Financial reports and dashboards to track key metrics should be prepared for each regional service line, to be monitored by system leaders.

### Integrating with Physicians Through Shared Control

Of course, the success of regionally managed service lines largely depends on the engagement, commitment, and leadership of the physicians who deliver the services.



A variety of hospital-physician alignment structures may exist in a hospital's service line. Across a regional health system, the methods of alignment are even more likely to vary and may include employment of physicians, professional service agreements, joint ventures, and other alignment structures. Furthermore, the physicians who have a direct impact on each hospital's service line may be competitors of one another, have adversarial relationships, or represent multiple specialties.

This situation raises a number of critical questions:

- > How can the health system best align the interests of each hospital and the interests of physicians to develop a regional service line network?
- > How should the network be structured to ensure that all parties fully support and benefit from it?
- > What should the health system do to ensure the network will retain and attract physicians and flourish through changes in payment methodologies, the growth of consumerism, and rising pressures to reduce utilization and costs?

The nation's best-performing hospitals are those with a high degree of physician leadership, where physicians have a strong voice in operations and where the administration is seen as being supportive of improvements physicians seek rather than as a barrier. Comanagement arrangements have gained popularity as an alignment option because of their track record in successfully engaging the physicians who directly affect the cost and quality of care delivered within a service line.

Under a regional comanagement model, a company is formed for the purpose of entering into a contract with the health system to manage the regional service line. Through this approach, a health system can align with a broad base of physicians to drive service-line success. Physicians whose practices may compete with one another—and who may work under a variety of alignment structures with the hospitals within the system and have varying degrees of commitment

to the system and its hospitals—can be brought together as members of the management company. Together, the physicians collaborate across facilities to identify, refine, and implement best practices to reduce costs, improve quality, and enhance patient satisfaction.

Although there are no requirements for ownership, and the management company may in some instances be wholly owned by physicians, many health systems seek participation in and ownership of such a company to ensure another level of alignment. The exhibit on page 4 presents a general comanagement structure.

The management company manages the day-to-day operations and participates in long-term planning for the regional service line. The scope of responsibilities varies depending on the capabilities of the physicians and their willingness to dedicate the time and effort required to achieve the goals established under the management agreement. Common responsibilities of the management company include:

- > Developing the strategic and operational plans for the regional service line
- > Collaborating with health system executives to set the strategic direction of the overall program
- > Supporting the development of financials/ analytics and a market analysis for strategic planning
- > Collaborating with administrators of outpatient facilities
- > Developing and implementing clinical protocols and overseeing other quality, outcome, and service initiatives
- > Directing program development efforts and participating in outreach and education
- > Providing a range of medical director services

The compensation paid to the management company for delivering services typically includes a base amount plus a variable amount tied to the performance of predetermined incentives. With a portion of the payment contingent upon the achievement of specific quality and efficiency measures, the participating physicians are more committed to making clinical and operational

**PRIMARY CONCERNS OF STAKEHOLDERS REGARDING REGIONALIZATION AND POTENTIAL SOLUTIONS**

Stakeholder	Concern	Potential Solution
Hospital Board Members	Harmful financial impact on their hospital if services it provides are reduced	Provide a transition period during which each hospital shares in the financial improvements of the regional service line based on its baseline share of the service line (see page 3)
Hospital Administrators	Negative impact to compensation or to their reputation because their hospital's performance might deteriorate if profitable services are reduced	Realign incentive compensation so it is based on regional performance, and assign hospital leaders regional service-line responsibilities in addition to their facility responsibilities to expand their focus and opportunities for recognition
Hospital Benefactors	Loss of access to services at the local facility	Emphasize the link between regionalization and other less controversial and more accepted strategies, such as population health, reform readiness, and improved outcomes
Physicians	Redirection of resources to facilities farther from their office and referral base	Engage physicians to take leadership in driving regionalization by providing them with incentives to improve the quality, cost, and access of specialty services at the system level
All	Loss of competitive position in areas where clinical resources are reduced	Maintain outreach/ambulatory sites, but also communicate the need to reduce duplication and achieve efficiencies to gain a more competitive overall position in the market

changes that improve regional service line performance.

**Overcoming Barriers**

Integrating with physicians through shared control will help to overcome the objections that many physicians would otherwise have regarding regionalization, but physicians are just one group among many stakeholders who would be impacted by regionalization. The exhibit above summarizes the primary concern of various stakeholders and potential solutions to overcome the barriers that can derail a regionalization initiative.

**Start with Why**

Regionalization is often accompanied by the reduction and elimination of services at some facilities. This concept is admittedly difficult to sell—to the health system's board and executives, to the physicians, to the nursing staff, and to the community. Consolidating the finance department is a whole lot easier than coordinating cardiology services across facilities. But achieving efficiencies in check writing and bond financing won't reduce medical errors, enhance patient satisfaction, or save lives. Ultimately, it will take strong leaders and aligned physicians to guide

health systems in overcoming the obstacles associated with regionalization.

So where to start? The key message in Simon Sinek's acclaimed book *Start with Why* is that "People don't buy what you do; they buy why you do it." The *why* for regional health systems often centers on building healthy communities and promoting wellness. These endeavors are at the heart of why health systems do what they do, and they should be the primary focus of every healthcare organization.

The essential message is simple: If we remain focused on our *why* and keep others focused on it as well, we will recognize the opportunity that regionalization provides to achieve it. ■

**About the author**



**John Fink** is senior manager, ECG Management Consultants, Inc., San Diego, and a member of HFMA's San Diego Imperial Chapter (JFink@ecgmc.com).