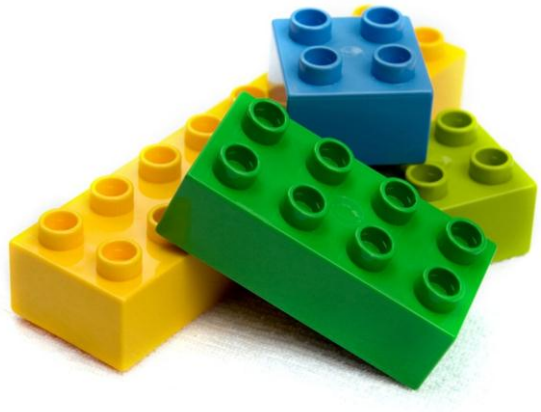
Deloitte.



# Rethinking the Health System Operating Model

## Starting at the heart of the organization

### What's at stake?

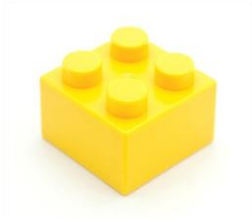
#### Redefining the operating model

Today's healthcare landscape, and the need to satisfy cost reduction and quality improvement imperatives, is driving provider organizations to pursue the goal of operating with greater coordination, integration, and productivity — or "Systemness." This requires that leaders start at the heart of their organizations by redefining their operating model. Doing so can lead to significant cost savings, but also the ability to deliver on the organization's vision and strategies through business model alignment, increased efficiency and revenue generation, as well as growth and workforce engagement.

The CEO of a $5BN U.S. nonprofit health system was facing an unfamiliar challenge: transform a group of independently-run facilities into a single integrated health system. He struggled with how to establish the right operating model, leadership team, and organization structure to make sure the system continued to be successful, while adapting for the future.

**What is an Operating Model?**

An operating model dictates where and how the critical work gets done across a health care system. It translates strategy into structure. To move towards a successful future state, the operating model should address how the organization will respond to the internal and external factors that are driving the need for change. Ultimately, the operating model groups capabilities, defines relationships, and dictates how work is executed in the future state, in support of the organization's strategy.



## Instant insights

The right operating model can produce near term labor cost savings from 3–5% by aligning physicians, administrators and staff to shared responsibility for improved care delivery interactions.

# Our take

## Acting like a single organization

### Starting with a clear vision

Health reform mandates — and patient expectations are catalyzing — healthcare providers serve their current patients more efficiently and prepare to manage the health of populations in the future. To do so effectively, health systems should look and act more like a **single, integrated organization**, capable of delivering care throughout the patients' entire cycle, rather than a collection of individual hospitals and clinics. By focusing on developing an integrated enterprise operating model it will not only foster long term growth and sustainability for provider organizations, it can also produce near term labor cost savings from 3–5%, by aligning physicians, administrators and staff to shared responsibility for improved care delivery interactions.[1] Furthermore, a drive towards "systemness" can provide benefits such as increased economies of scale, opportunities to drive strategic patient care delivery, increased consistency of services delivered across communities, among others.

### Focusing on breakthrough opportunities

In order for provider organizations to deliver care throughout the entire continuum of care and achieve breakthrough performance in the new regulatory and reform environment, clear clinical pathways, organized by service line, care delivery, or patient flow, must be established.

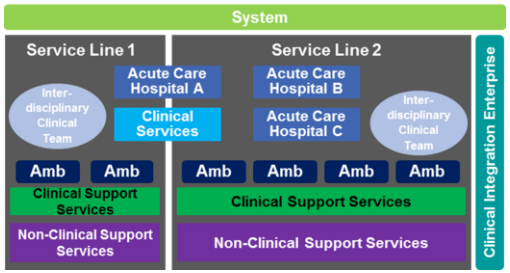
Traditionally, many organizations would only tackle the integration of business support services to produce cost reductions in support of mission-critical functions. By shifting away from today's siloed organization and towards a patient-centered care delivery model, providers can provide a more seamless, full cycle of care, thereby maximizing clinical outcomes for their patients. Demonstrating breakthrough performance or meaningful improvements with respect to clinical outcomes may require provider organizations to measure what is important to patients, like health status achieved as a result of care, process of recovery, and sustainability of health. Rather than measuring the standard set of health outcomes, like mortality, hospitals that are able to capture and take action on meaningful health outcome measures may be enabled to better meet patient needs and improve the overall quality of care.

For that reason, a critical enabler of clinical integration is the development and/or use of advanced analytics capabilities. Yet organizational siloes often limit the effectiveness of an enterprise analytics strategy and the ability to monitor and address complex business issues.[2] Analysts should be able to work collaboratively and effectively across traditional boundaries (IT, Finance, Clinical, Operations) in order to measure outcomes and cost data through the full cycle of care.[3] And, when these data are communicated both to internal and external stakeholders, clinical outcomes and financial performance improve. [4] As such clinical integration efforts should be partnered with a view towards developing or improving the organization's analytics capabilities and structures. Together the result is data driven decision making that can more effectively meet external and internal demands of efficiency and accountability.

There are many unique strategies to innovate, diversify and aggregate either locally, regionally or nationally. The four operating model examples on the next page are based on various strategic choices (Figure 1). All involve aspects of **coordination** and **integration** and emphasize **productivity** and **efficiency**.

Figure 1.

# Four operating model examples




## The Innovator

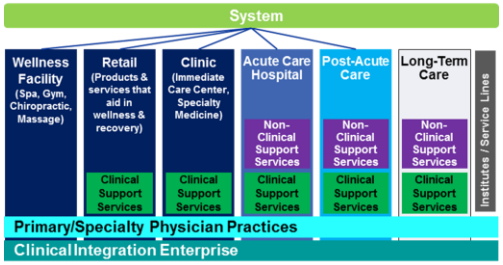
***The Innovator.*** Differentiating by higher quality and improved experience to extract leading reimbursement and draw patients from a broad geography.

**Strategy enablement:** Higher reimbursements and preferred contracts through market recognition as a 'best product' provider'; Development and delivery of innovative health care services

**Potential risks:** Focus on innovation may lead to increased risk and negative outcomes

**Suggested organization competencies:**

- National recognition by industry press and superior brand recognition among consumers
- High-caliber innovation resources and incentive compensation to reward entrepreneurialism and smart risk taking




## The Diversifier

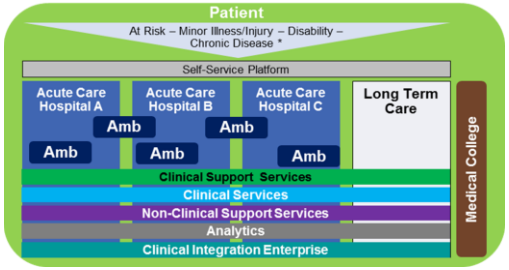
***The Diversifier.*** Extending its brand strength and capabilities into adjacent and new lines of business to supplement declining margins within core services.

**Strategy enablement:** The ability to serve the patient across the end-to-end continuum of care, from illness to wellness

**Potential risks:** Expansion into businesses that operate differently, adding more complexity to the system

**Suggested organization competencies:**

- Strong brand preference / permission within target market
- Commercialization orientation and experience to identify and manage opportunities
- Solid balance sheet or access to investment capital to support inorganic growth
- Ability to manage connection to the core




## The Aggregator

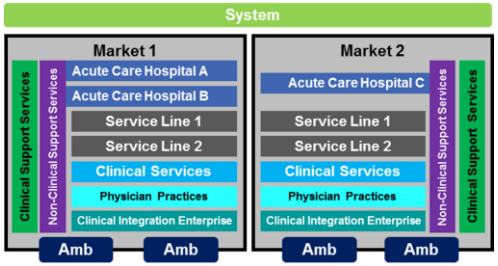
***The Aggregator.*** Using actual and virtual scale to drive a sustainable unit cost advantage in facility-based services.

**Strategy enablement:** Profitability at or below Medicare reimbursement through unit cost reductions achieved by scale economies; focused excellence in key service lines

**Potential risks:** Lack of diversification may leave sites vulnerable to competition that offers end-to-end care

**Suggested organization competencies:**

- IT infrastructure and analytics capabilities to develop, drive, and measure adoption of standardized, evidence-based practices
- 'Lean' culture and infrastructure to support top cost and quality outcomes and continuous improvement




## The Health Manager

***The Health Manager.*** Using capabilities in clinical/technology integration to improve health, drive reductions in utilization, and manage cost within a budgeted care environment.

**Strategy enablement:** Cost leadership through a reduction in demand/utilization through health maintenance

**Potential risks:** Use of affiliated providers to plug in and play specific health management roles reduces control over standards and processes

**Suggested organization competencies:**

- Experience in managing receipt and distribution of global payments
- Advanced analytics capability integrating risk, internal / external clinical information, product options and pricing

Framework for evaluating and applying comparative effectiveness data (e.g., internal / external providers, service offerings, pricing, etc.)

# The path forward

## Setting strategic priorities

To decide on future-state operating objectives that enable the realization of the benefits associated with increased systemness, and create a safe and effective care delivery model, a thoughtful discussion should occur on the organization's strategic priorities. Based on these priorities, trade-offs between organizing by geographic locations, markets or patient type, services delivered, or along other organization-specific dimensions should be discussed and considered. Some of the key considerations that should be taken into account are outlined below.

### Degree of Shared Services Implementation

Health care systems have historically co-located and shared classic corporate services — information technology, finance and revenue cycle operations, human resources, marketing, legal, and supply chain — moving to either a shared services or to an outsourced model for these functions. Recently, systems are also exploring shared services or outsourced models for clinical support services (e.g., dietary, environmental services, facilities). However, an increasing number of organizations are realizing benefits beyond lower costs by centralizing reporting structures for clinical operations such as nursing, radiology, laboratory, and care management as well. In these areas, repeatable, reliable services that are consistent across facilities can provide a seamless patient experience and safety benefits.

### Degree of Service Line Implementation

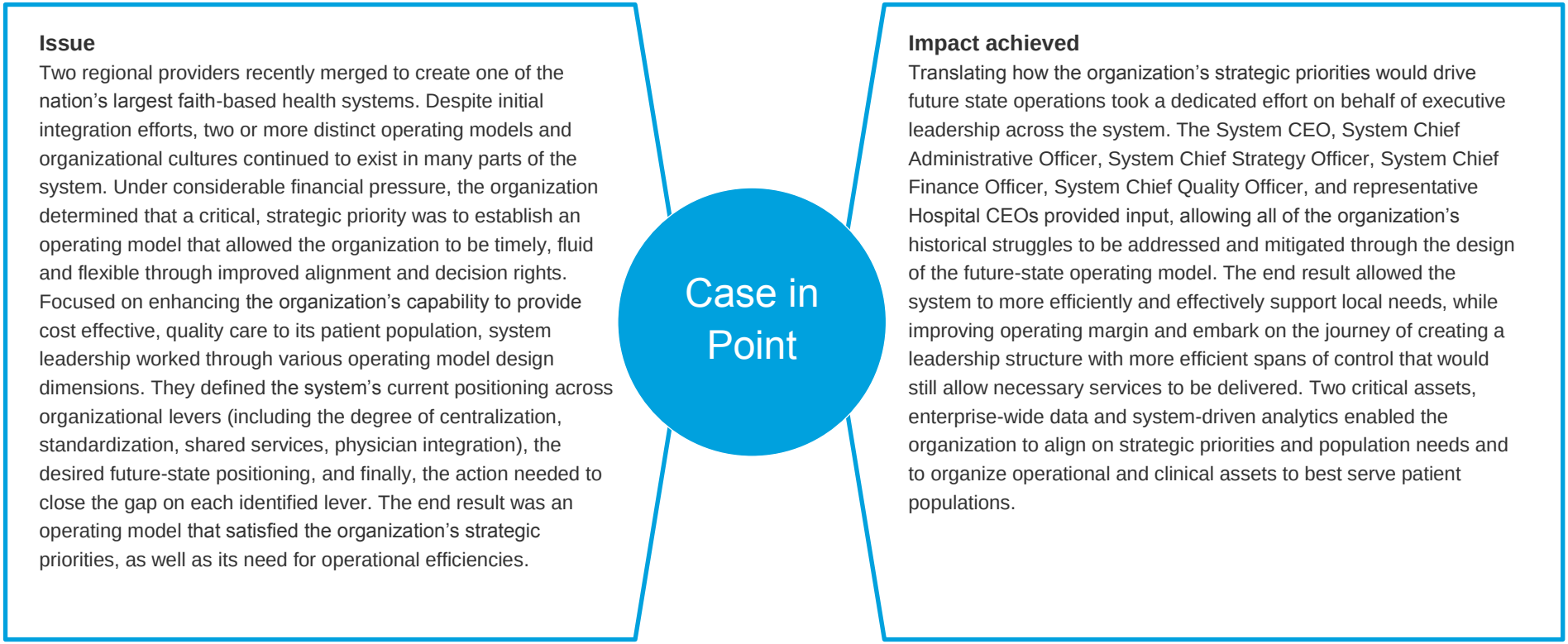
Traditional hospitals were organized around their acute care location(s), with some functional departments in place (nursing, administration, etc.). As the industry transforms to become more focused on outcomes — including quality, reliability and consistency of care beyond the hospital or clinic — and expands the use of technology for things such as predictive analysis and segmentation, a new type of organizing characteristic is emerging. Just as companies are organized around strategic business units, which are profit centers focused on service offerings and market segments, in health care, Service Lines are emerging that have their own business strategy and plan, including a discrete marketing plan, analysis of competition, and marketing campaign (even though they are part of the larger health care provider entity).

Health systems around the country are at varying degrees of maturity when it comes to enhancing the value of Service Lines, with some systems not focused on a Service Line strategy, and others having a few fully functioning Service Lines that boast brand recognition and a disproportionate amount of revenue or volume of care when compared to the overall system. As leaders consider which service lines to establish, how and when, there are many important considerations such as how to provide services across and operate within the health system's geographic footprint, and how to allocate certain key services (i.e., analytics, marketing, quality, care management). Often, system strategy, processes and quality metrics are established at the health system level, setting the foundation for clinical integration, whereas service line-specific clinical operations or market strategies are set at the Service Line level.

### Degree of Market Orientation

Throughout this paper, we have emphasized the movement from fragmented hospital, clinics, and physicians' offices to coordinated and "systematized" hospital, clinics, physician offices, and community-care. This progress has been founded on markets or regions as the organizing principle, focusing on how individuals and populations move through the continuum from sickness to wellness in a specific geographic area or market. This progress has also led the industry to evolve from disconnected and dispersed professionals (MD, RN, and Health Advisors) to a cohesive network of professionals coordinated with para-professionals, self-care, family, and community-based relationships. Technology has played a critical role in enabling these linkages, moving from disperse and duplicate paper records to technology as an enabler for segmentation and predictive capabilities with the ability to track outcomes over time. Additionally, leadership structure changes should be considered in order to bring together those key players who have the experience, influence, and insights to shepherd the system's market strategy. Most health systems in the country are only beginning their journey to population health in a market or geographic area, but where to focus and how much of the population to serve are strategic choices that will have a profound impact on future operating models.

## The path to a future state operating model is a careful balancing act




**Issue**

Two regional providers recently merged to create one of the nation's largest faith-based health systems. Despite initial integration efforts, two or more distinct operating models and organizational cultures continued to exist in many parts of the system. Under considerable financial pressure, the organization determined that a critical, strategic priority was to establish an operating model that allowed the organization to be timely, fluid and flexible through improved alignment and decision rights. Focused on enhancing the organization's capability to provide cost effective, quality care to its patient population, system leadership worked through various operating model design dimensions. They defined the system's current positioning across organizational levers (including the degree of centralization, standardization, shared services, physician integration), the desired future-state positioning, and finally, the action needed to close the gap on each identified lever. The end result was an operating model that satisfied the organization's strategic priorities, as well as its need for operational efficiencies.

**Impact achieved**

Translating how the organization's strategic priorities would drive future state operations took a dedicated effort on behalf of executive leadership across the system. The System CEO, System Chief Administrative Officer, System Chief Strategy Officer, System Chief Finance Officer, System Chief Quality Officer, and representative Hospital CEOs provided input, allowing all of the organization's historical struggles to be addressed and mitigated through the design of the future-state operating model. The end result allowed the system to more efficiently and effectively support local needs, while improving operating margin and embark on the journey of creating a leadership structure with more efficient spans of control that would still allow necessary services to be delivered. Two critical assets, enterprise-wide data and system-driven analytics enabled the organization to align on strategic priorities and population needs and to organize operational and clinical assets to best serve patient populations.

## Bottom line

The current economic and regulatory environment has intensified the need for health care systems to reduce costs, align physicians, and improve outcomes. Increasing the quality and consistency of organizational behaviors is one of the best ways to drive down costs and improve patient experience and outcomes. Creating a clear, compelling operating model and supporting structure for both internal (employee) and external (patients) constituents is the secret sauce that brings health care transformation together. Managed well, health care providers can look forward to streamlined relationships, increased collaboration, heightened talent development and invigorated leadership.

After considerable debate, design, and analysis, our CEO's leadership team has aligned around a new, integrated operating model design. *Now, how does he structure his executive team to drive successful strategy execution?*

**Find out by reading the second part of this series, "Transforming system leadership to implement and sustain a new operating model — Bringing it all together."**


### Contacts

**Jennifer Radin**
Principal
Deloitte Consulting LLP
jradin@deloitte.com

**Tiffany McDowell**
Senior Manager
Deloitte Consulting LLP
tmcdowell@deloitte.com



### Acknowledgements

We would also like to thank Jordan Kim, Aparupa Bhattacharya, Brittany Dobosz, Faatin Chaudhury and the many others who contributed to the preparation of this report.

## References


[1] Based on Deloitte client experience.

[2] Mitch Morris, Jennifer Radin, Michael Brooks, Tiffany McDowell, “Organizing for Analytics in Health care,” *Deloitte Consulting,* 2013, 5.

[3] Ibid., 6.

[4] M.E Porter, T.H. Lee, “The strategy that will fix health care,” *Harvard Business Review*, October 2013, 5.
Accessed November 11, 2013, http://www.healthleadersmedia.com/content/LED-298130/CEO-Exchange-Physician-Leadership-Seen-as-Crucial##.