King for a Day:

Winning Strategies in Post-Reform Healthcare

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By David Johnson, CEO

Great leaders ask great questions.

Banner Health's CEO recently wrote and asked me, "If you were king for a day, what three strategies would you pursue to enable health systems to win in post-reform healthcare?" With Peter's permission, I'm sharing my response.

My three suggestions follow: 1. Make quality "job 1"; 2. Embrace shared decision-making and 3. Emphasize cost accounting as much as revenue cycle.

My list steals some of Peter's thunder. Fine publically declared Banner to be a "Clinical Quality Company" in 2009. Banner's results since have been stunning: significantly better treatment outcomes; significantly lower patient mortality; reduced treatment variation; lower costs and happier patients.

Here are my three full responses:

Make Clinical Outcomes "Job 1"

Trying to overcome a "planned obsolescence" managerial mindset and respond to voracious Japanese competition, Ford Motor Company launched its "Quality is Job 1" campaign in the early 1980s and turned the company around.

Banner's strategic decision to be held publically accountable as a "Clinical Quality Company" mirrors Ford's boldness.

It's remarkable what organizations can accomplish when metrics and mission align. Banner began measuring "lives" saved relative to APACHE predictive algorithms in 2007. That year Banner saved 224 lives.

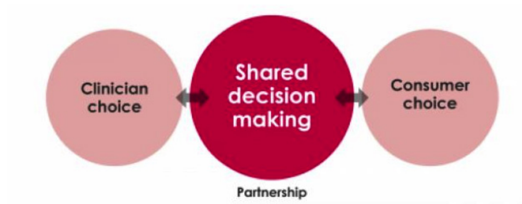
When Banner declared its self a clinical quality company in 2009, the number increased to 527. The big leap occurred in 2011 when saved lives skyrocketed to 1590 from 627 in 2010, a 154% increase. Today annual saved lives exceed 2,000.

Performance improvement is rarely linear. Organizational learning takes time and commitment. Banner's 2011 breakout performance was years in the making.

By definition, there can only be one "Job 1". Organizations that don't give quality primacy can never hit targeted quality, safety and outcomes metrics. Left unopposed, the energy generated from optimizing revenues (Job 1 at most health systems) overwhelms well-meaning quality initiatives.

There is no wiggle room in pursuing quality.

Embrace Shared Decision-Making (SDM)



The Informed Medical Decision Foundation's defines SDM as follows,

Shared Decision-Making is a collaborative process that allows patients and their providers to make health care decisions together, taking into account the best scientific evidence available, as well as the patient's values and preferences.

Best-practice SDM incorporates video decision aids and guided conversations that enable patients to understand treatment alternatives and make better medical decisions.

SDM is a trifecta. It results in happier customers; better outcomes and less invasive (and less costly) care. Imagine the reduction in lower-back surgeries if patients were fully-informed regarding relative benefits and risks. SDM has the additional advantage of positioning health systems for increasing consumerism by aligning care delivery with customer wants, needs and desires.

GroupHealth.

The August issue of Health Affairs reprints a 2012 article chronicling Group Health's use of video decision aids with 9,515 knee and hip replacement candidates.

Group Health physicians engaged patients with and without Health Dialog video decision aids. Patients working with the Health Dialog videos, on average, chose less intensive therapies and incurred lower care costs: 26% fewer hip replacements; 38% fewer knee replacements and 12%-21% lower costs.

The results demonstrate SDM's power. Informed patients are more engaged and appropriately aggressive in their medical decision-making. Moreover, giving informed patients the care they want is cost-effective.

Health companies that choose not to pursue shared medical decision-making risk alienating customers as meaningful second opinions become more prevalent and clinical outcome and customer quality scores become more transparent.

It's also the right thing to do.

Emphasize Cost Accounting as Much as Revenue Cycle

All companies seek to maximize profitability. The means by which they pursue this goal reflects economic incentives built into payment systems.

In most industries, companies maximize profitability by providing value for customers. Companies strive for the optimal relationships between price, cost and customer demand. Customer needs and perceptions are the principal considerations.

Apple has become the world's most profitable company by making its products desirable, affordable and accessible to consumers. Apple also knows its product costs to the penny.

By contrast, health companies employ a regulatory mindset that seeks to optimize revenues (and profits) by finding optimal relationships between volume, payor mix and coding. This managerial orientation has led to an explosion in revenue cycle investment and severe underinvestment in cost accounting. Actual product and service costs are a mystery in many health systems.

Hoag Orthopedic Institute

Nothing prevents hospitals from tackling performance improvement with advanced cost accounting capabilities. Hoag Orthopedic Institute (HOI) in Irvine, California participates in an Institute for Healthcare Improvement (IHI) and Harvard Business School (HBS) consortium to improve costs and outcomes for total joint replacement surgeries.

The global consortium includes thirty-two organizations. As part of the process, HOI spent two months mapping joint replacement surgeries employing time-driven, activity-based costing (TD-ABC). As Medicare rolls out bundled payments for orthopedic procedures, HOI is ready. They've mapped, analyzed and benchmarked entire care episodes.

Living their truth, HOI relentlessly pursues constant process improvement and publishes its outcomes. Dr. Robert Gorab, HOI's Chief Medical Officer, believes that benchmarking and publishing performance data changes surgeons' behaviors for the better. It also makes for happy customers. HOI's culture embodies an Apple-like market mindset and illustrates how winning companies differentiate in post-reform healthcare.

In a world where price matters (think "bundles"), having per-unit revenues align with per-unit costs is essential to success. Developing advanced cost-accounting capabilities supports performance improvement, improves decision-making and enhances resource allocation.

Sunshine is the best disinfectant. It's time to give cost accounting its "day in the sun." Better performance will follow.