HSG | PHYSICIAN NETWORK
CREATING FINANCIAL SUSTAINABILITY

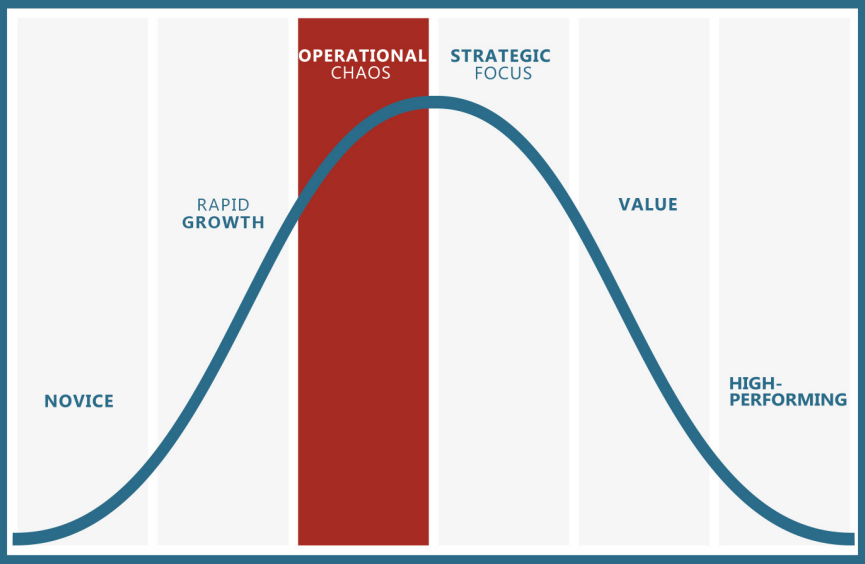
IDENTIFYING DRIVERS OF POOR FINANCIAL PERFORMANCE

PHYSICIAN NETWORK FINANCIAL SUSTAINABILITY

THE IMPERATIVE FOR FINANCIAL SUSTAINABILITY

Many hospitals are increasingly challenged by the financial performance of their employed physician networks. As these networks grow, the concern about financial performance moves to the forefront, with the losses becoming an increasingly visible drag on the system's overall profitability. This, in turn, puts pressure on health system and physician network leadership to, at a minimum, figure out how to bend the cost curve, if not reduce net losses altogether. This is a common challenge with networks who are in the "Operational Chaos" phase of HSG's Physician Network Growth Phases®. Networks going through this dynamic must get to a point of Financial Sustainability.

HSG PHYSICIAN NETWORK GROWTH PHASES®



Symptoms of Operational Chaos

- Recent, rapid growth in employed providers
- Recent, even more rapid growth in subsidies
- Sense that finances are not sustainable, but not seeing a path out of where we are
- Lack of management resources where management is being used to do "everything" including recruitment, contract renewal/ negotiation, leaving local practice leadership to fend for selves amidst gaps in communication
- Wide variation in practice operations
- Revenue cycle not formalized due to lack of communication with practice administration
- Coding variation, particularly under coding
- Referrals leaking out of network
- Variety of compensation models makes it hard to measure effectiveness of compensation strategy or to provide right incentives at the network level

Financial Sustainability

[fi-nan-shuh l-suh-stey-nuh-bil-i-tee]

NOUN

1. the point at which health system leadership is reasonably assured the performance of the employed physician network is not a detriment to the health system's overall financial performance. In the long term, the physician network will have the infrastructure, management capabilities, and provider engagement to make maintaining the cost curve realistic.

Only through achieving Financial Sustainability can the organization move forward and spend appropriate time and resources addressing issues that add value to the overall health system.

Failure to do so results in meeting time, hallway discussions, leadership meetings all being dominated by the financial performance of the network, rather than being focused on how the network is being leveraged to create health system success.

IDENTIFYING DRIVERS OF POOR FINANCIAL PERFORMANCE

In our work with employed physician networks around the country, we hear the same core issues with financial performance –

- *"Our providers aren't productive enough"*
- *"We pay our providers too much"*
- *"We have too much staff"*
- *"Our providers aren't keeping referrals in the network"*

Issues like these tend to be symptoms of broader, more complex issues. While there is assuredly some value in the directives of "work harder," "see more patients," and "send referrals to our providers," **the biggest challenges tend to be ones that are not directly driven by the providers, but rather by the infrastructure of the network itself, along with the strategy guiding the creation and operation of the network.**

Whether it's a lack of investment in management resources, a "hands-off" approach to the practices, an overly hospital-driven management focus for the practices, or just a general lack of accountability within the network, there are often underlying drivers of poor financial performance that are not readily apparent to hospital executive teams regarding their employed network:

- Management Infrastructure
- Revenue Cycle
- Compensation Model
- Practice Operations
- Advanced Practitioner Usage
- Strategy

MANAGEMENT INFRASTRUCTURE CHALLENGES

Accountability

The biggest challenge with management infrastructure in employed networks, particularly with those in the Operational Chaos phase, is Accountability – specifically, when we say we want to reduce our subsidies for an employed network, who is being held accountable? In some organizations there is a clearly defined "where the buck stops" role for the employed network. More often, one or more executives have operational responsibilities over the network with a completely separate team being responsible for the performance of revenue cycle for the practices. In most of the smaller Operational Chaos networks we work with, the ultimate point of accountability for financial performance of the networks is the CEO, and most of the time the CEO does not realize this is the case.

Resourcing

Underresourced management teams are also a big challenge for networks who are struggling with financial performance. It seems counterintuitive to add more financial commitments when a network is already struggling with financial performance, but often we find the "leader" of the network is also burdened with other responsibilities and/or has a span of control that is too large to be effectively managed. If your Executive Director is also doing contracting and recruitment while trying to oversee the management of 20+ practices, that person is likely to be barely keeping their head above water and in a daily "firefighting" mode where only the "issue of the day" gets addressed. This is not the environment that promotes effective management or that sets up the network for a positive change going forward.

REVENUE CYCLE CHALLENGES

Lack of Dedicated Resources

Physician networks that struggle with financial performance often have revenue cycle challenges – generally these are driven by a lack of dedicated revenue cycle/billing office resources for the employed physician network. Most frequently we see hospital billing resources trying to accommodate physician billing, which creates a number of challenges. Resources get split; personnel assigned to one job get pulled and assigned to another; coding and billing personnel get assigned to physician practice specialties they do not have a depth of knowledge about. All of these issues drive down revenue cycle effectiveness.

Communication Between Billing Office and Practices

In networks experiencing revenue cycle issues, one of the most frequent challenges is communication. The billing office, particularly if it is tied up in hospital billing, can become a silo from which no information escapes. This becomes a problem particularly when information about denials is not getting fed back to the practices to generate front-desk process improvement opportunities. The same issue is prevalent with coding staff not getting the correct information back to providers and clinical staff.

Coding Education and Incentives

We frequently find employed networks leaving $1M or more in bottom-line revenue on the table as it relates to undercoding. In most cases, this is driven by providers not having A) the education on what they should be doing and B) not having incentives to drive the correct behavior. Organizations who have not (or have gotten away from) emphasizing productivity in their employment contracts have likely seen a downturn in coding levels – when the provider does not have incentive to maximize wRVUs, the only incentive becomes not to overcode – resulting in 99204s becoming 99203s, as an example.

COMPENSATION MODEL CHALLENGES

Misusing Benchmark Data When Crafting Incentive Model

"But we used MGMA to set this provider's salary and wRVU target" is a common phrase used by employed networks when trying to figure out why their provider compensation outpaces the productivity and revenue generated by the network. Benchmarks are a tool, but provider compensation must be set in the context of your market's demands and your organization's needs.

Individual vs. Group Incentives

Many networks struggle with the issues of "Dr. Smith is busy, but Dr. Jones has lots of empty schedule slots" or "Dr. Smith is very busy, but his Nurse Practitioner is below the 10th percentile." Compensation models for employed practices today should be focused as much on Group incentives as Individual. wRVU contracts that have historically focused on incentivizing a provider to be as productive as possible are now providing mal-incentives for the same provider to maximize the rest of his/her practice staff and provider peers.

LACK OF STANDARDIZED PRACTICE OPERATIONS

The "We Only Changed Your W-2" Approach to Practice Management

Most commonly, this issue relates to practices being left to operate much as they did before they were employed – which results in wild variation on a practice-by-practice basis when it comes to throughput, staffing, space, and other operational indicators. In these cases, physicians usually retain what we refer to as "Negative Autonomy" – physicians retain the desire to run their practice operations to suit their needs, but lose the bottom-line accountability for the practice – which is now the employed network's problem.

ADVANCED PRACTITIONER CHALLENGES

Provider Mix

Many organizations are struggling with getting their mix of advanced practitioners right within their employed network. This is crucial because A) the physician supply is not out there to meet most organization's recruitment needs and B) the cost to support a physician-heavy employed network is unsustainable for most organizations. In organization's with a physician-heavy mix, adjusting the mix to an appropriate ratio usually means millions of dollars in savings in provider cost with a relatively light impact on network revenue. While provider mix dynamics cannot be shifted overnight, they can be appropriately addressed in the health system's manpower plan. Dedicated, consistent recruitment of advanced practitioners, along with age-related succession planning for physicians can adjust provider mix over time, and ensure revenue stability while reducing provider cost.

Top of License Usage

In many organizations, advanced practitioners are being used as glorified clinical staff, resulting in cost per provider being excessive relative to production. In many groups, the providers will openly comment "we don't know how / we don't want to use" advanced practitioners. This is less of a fundamental stance and more of a "we don't know how to realize the benefit" standpoint. Without top of license usage – and a culture and clinical practice model that supports that usage – advanced practitioners will be nothing more than an inefficient expense at the practice level.

STRATEGIC CHALLENGES

Strategic Issues Disguised as Performance Issues

Poor financial performance is, in some cases, a symptom of larger strategic issues at the network or health system level. As an example, if the employed network doesn't have the right primary care strategy and a sufficient primary care base supporting its employed specialties, all the performance improvement initiatives in the world won't make employed specialty practices productive and profitable.

Employing "Who We Have" vs. "Who We Need"

Not every provider and practice who was brought into the network years ago is still a strategic fit for the network. Some providers are never going to have the mindset that will make them an effective employed provider. Some practices brought into the network long ago under a different strategic mindset may not be relevant now, but due to historical or political reasons, the practices remain part of the employed network and continue to be subsidized by the hospital.

EXPLORING YOUR NETWORK'S ISSUES WITH FINANCIAL SUSTAINABILITY

HSG's approach to helping health systems identify and execute on issues related to Financial Sustainability focuses on four distinct components:

1.

In-Depth Assessment of the Network

A complete assessment of the network's performance must be created, to provide an overall picture of the network's challenges and opportunities.

- MANAGEMENT INFRASTRUCTURE
- STAFFING
- PRACTICE PERFORMANCE
- CODING
- OUTMIGRATION
- PROVIDER PRODUCTIVITY AND PERFORMANCE
- PROVIDER COMPENSATION
- REVENUE CYCLE PERFORMANCE
- CHARGE STRUCTURE
- COMPLIANCE

2.

Build Awareness and Consensus with Internal Stakeholders

Bringing everyone to the same level of understanding about the network's challenges and opportunities is crucial to getting engagement and buy-in on future initiatives. Administration, management staff, and providers must have the opportunity to understand the network's needs and how attacking those needs will impact them in their roles. Depending on organization size and dynamics, including the board (or appropriate subcommittees) in this level of discussion is extremely helpful.

3.

Develop a Comprehensive Implementation Plan

An employed network's finances will not be turned around overnight. Realistically, any meaningful and long-lasting strategic effort for fundamentally changing the run rate on practice losses will be a 12-to-36 month effort. Guiding these actions should be a Comprehensive Implementation Plan, which defines actions, accountabilities, and timeframes. This document should become the focus of administration activities. It should also guide actions taken by any existing Physician Leadership Council (and subcommittees) within the employed network.

4.

Execute, Measure and Report

Execution is, of course, key, but so is measuring the impact of execution and then reporting it back to not only administration, but the providers and staff as well. Financial improvement activities will impact every stakeholders' day-to-day operations. Being able to see the financial impact of those activities is crucial to maintaining buy-in.

The Implementation Plan, if properly executed, should create a clear path forward for all stakeholders, providing guidance to management, provider leadership, and the provider group at large of where and when to prioritize efforts and what success looks like. This creates mutual accountability among providers, management, and network leadership, which defines expected timelines, responsibilities, and resources needed, thus achieving desired results.

CONCLUSION

As concern grows about the financial impact of employed physician networks, healthcare executives must turn to experts for help. The long-term financial implication to the health of the organization and its sustainability are significant. Taking a thorough approach to address the financial sustainability of the organization will increase the likelihood of reaching goals and improving overall performance.

GETTING STARTED

We want to help your physician network evolve with a Physician Network Strategy that will solidify your Financial Sustainability while maximizing your health system's performance. From a full physician network assessment to capitalizing on revenue opportunities, HSG can help you develop and execute a custom-tailored strategy that capitalizes on those opportunities while evolving your physician network from operational chaos to one that is high-performing. Please feel free to reach out to us to schedule a discussion about an improvement initiative for your Physician Network.

Travis Ansel

MBA

Partner

Email: TAnsel@HSGadvisors.com
Office: (502) 814-1182
Cell: (502) 994-0073

About The Author

In his 10+ years in management consulting, Mr. Ansel has worked with clients ranging in size from multi-hospital tertiary systems to critical access hospitals. His practice focuses on helping health systems create structured plans for evolving their physician networks, allowing them leveraging relationships with providers to ensure the health system's strategic objectives are being achieved. He believes that Physician Networks play a crucial role in executing health system strategy, and that health system management teams must evolve beyond solely tackling day-to-day decisions and develop a focused, long-term plan for physician network alignment, growth and capability development to be successful in the future.

Travis has developed a strong track record of generating revenue growth and growing market share across the country. For each client, his focus is partnering with them to understand their landscape and challenges while working with management teams and providers to create proactive, implementable plans that will generate success. He then focuses on bringing the right resources to clients to ensure anticipated results are achieved.

Travis holds a Master's of Business Administration from Vanderbilt University, Nashville, Tennessee and dual Bachelor's of Science Degrees in Finance and Business Management from the University of Tennessee at Knoxville.

We Build High-Performing Physician Networks so Health Systems can Address Complex Changes with Confidence.

HSG

HSG

HSGadvisors.com
502.814.1180
info@HSGadvisors.com