OPTUM®

Making bigger measurably better

Perspectives on the value of achieving systemness

It seems to make perfect sense for health systems …

? **Facing** escalating margin pressures?

? **Looking** to be more cost-efficient?

? **Consolidate** with others in your market?

? Need to **grow** revenue?

? Physicians **aligning** with competing systems?

Acquire, acquire, acquire.

Mergers and acquisitions have happened at an unprecedented pace the past several years, and the size of these newly minted systems is bigger than ever. But many of these health systems have found that generating true value from scale is difficult, if not impossible, with their current operating approaches. Recent headlines capture the unforeseen realities of consolidation:

New York Times

Hospital mergers improve health?
Evidence shows the opposite

❚❚ Markets for both hospitals and physicians have become more concentrated in recent years. Although higher prices are the consequences most often discussed, such consolidation can also result in worse health care.❚❚ [1]

Modern Healthcare

Health systems' scale not linked to higher revenue

❚❚ New data … challenge the common perception that scale will improve healthcare providers' operations … (and) showed that there was no correlation between higher revenues and better operating margins from 2015 to 2017.❚❚ [2]

→ Read on to learn more about the evolution of systemness, insights from health system leaders, and how to advance systemness within your organization.

1 The state of systemness

Why are so many systems having such difficulty making headway? Many are what you could call a "SINO"— a system in name only. They may have merged multiple facilities (some combination of acute, ambulatory and ancillary) into one organization. However, they aren't effectively making decisions in the best interests of the whole organization, which can compromise their ability to improve quality, enhance experiences, decrease costs and generate growth.[3]

There is good news: Complex health delivery systems are finding meaningful economies of scale and other significant advantages by developing a viable systemness strategy. This point of view provides insights on what works — and what to avoid — for leaders ready to develop such a strategy and achieve true value from scale. It includes the perspectives of two industry leaders who have made headway on their path to systemness and are now seeing the rewards that come from making a full commitment.

What constitutes full commitment? It starts by understanding the **"table stakes" of integration:**

- Effective system governance and decision rights
- Centralization of corporate functions
- System negotiations with payers
- System supply chain and purchased services
- System rebranding

These are low-hanging fruit. As such, these tactics certainly have benefit, but are really just the beginning. In a full commitment to systemness, you have to be willing (and able) to take on **the more difficult work of integration:**

- Service line and asset rationalization
- Clinical program consolidation
- Medical group integration
- Independent physician alignment
- Organizational redesign and incentive alignment
- Technology integration

It's important to remember that being an effective system does not necessarily equate to "centralization." Organizations that are able to capitalize on their system structure find appropriate balance in how they organize, structure and manage various aspects of the business at every stage of maturity. Health systems can take a page from other industries, such as aviation and hospitality, that have aligned on operational, profitability and customer loyalty interests.

A viable systemness strategy offers complex health delivery systems economies of scale and other significant advantages.

2 Understanding system maturity

Mapping the ambition: Four milestones of system maturity

Leaders need to recognize that achieving systemness is a journey that requires a purposeful strategy that evolves as the system matures. Understanding key milestones in becoming a high-performing system can help you evaluate where you are today, and where you could be tomorrow.

Degree of Systemness

EARLY →	ADVANCING →	PROGRESSIVE →	LEADING
OPERATIONAL	**PRODUCT**	**STRUCTURAL**	**TRANSFORMATIONAL**
Can we develop a financially sustainable operating model?	Can we deliver better clinical care and better overall customer experience?	Can we optimize care delivery and distribution over the population we serve?	Can we deliver a different type of whole-person/ whole-life care?
• Economies of scale in corporate functions, for example managed care contracting, supply chain and purchased services, workforce	• Consistently high-quality, cost-effective care	• Service rationalization	• New business models
• Elmination of duplication	• Elimination of unwarranted clinical variation	• Ambulatory investment and placement	• Diversified growth
• Consistency of functions and processes	• Evidence-based best practices and approaches	• Risk-based payment models	• Building long-term, loyal relationships

In a way, health system maturity is a moving target. You might just be starting out and primarily focused on consolidating revenue cycle operations across acute facilities. Or maybe you have already made meaningful progress establishing consistent productivity standards across your system. Now the task may be to engage your workforce from multiple facilities to work together to reduce care variation. Or perhaps your telehealth capabilities are now advanced enough that you can reach into new geographies — and rationalize your footprint in others.

Taking an "outside-in" view: Value from the perspective of stakeholders

Becoming a mature system is a difficult organizational undertaking that can only succeed if all stakeholders understand the value you are creating. How do you appeal to their needs and expectations? Put yourself in their shoes. As you develop your systemness strategy, consider the type of value it will generate for each of these stakeholders at every stage.

Achieving systemness is a journey that requires a purposeful strategy that evolves as the system matures.

Milestones to systemness   Stakeholders

	Consumer/Patient	Employer	Payer	Physician
OPERATIONAL	Can you simplify/reduce my busywork and make it easier to understand?	How will your cost savings be my cost savings?	Can your efforts make our relationship easier?	Can you make the bureaucratic parts of my life easier?
PRODUCT	Can you improve the care I'm getting when I'm getting it?	Can you keep my employees healthy, working, and not stressed?	Can you deliver consistent costs and predictable results?	Can you help me deliver better care for my patients?
STRUCTURAL	Can you coordinate and deliver the care that I need when I need it?	Can you be where my employees need you to be?	How can what you do benefit more of my members?	Can we deliver better care and outcomes as an integrated team?
TRANSFORMATIONAL	Can you deliver the care that I need over my lifetime?	Can you be what my employees need you to be?	Can we bring our collective assets together to improve member health and bend the cost curve?	Can we evolve together as medicine evolves?

Health systems may fail to capitalize on the potential associated with system scale if they have not taken an outside-in view to factor in the value each stakeholder seeks. Absent this, system leaders may be unable to create a compelling vision of systemness for their internal constituents who are ultimately the ones who have to effect the change. Or, just as detrimental, they may focus effort and resources on factors that are not valuable to their stakeholders.

Signs that your organization isn't ready for systemness

If you answer "yes" to any of these, you likely need to regroup before you take the deep dive into the best practices that follow.

- Is there more loyalty to old component parts than a desire to create a vision for the whole?

- Are you beholden to any single stakeholder?

- Does your leadership team focus on what the internal team wants instead of what patients and other stakeholders need?

- Is there a desire to bypass mastering the basics and leap to more sophisticated forms of system advantage?

- Does your leadership team struggle to champion the vision for systemness and the value it will bring to your stakeholders and your organization?

Becoming a mature system can only succeed if all stakeholders understand the value you are creating.

Systemness can drive better care, competitive advantage and revenue growth when your stakeholders feel well served. The more you take an outside-in view, and the more value you deliver to your stakeholders, the greater the success you are likely to see.

So how committed are you? If the answer is very, read on.

Organizations that are serious about pursuing systemness must be able to articulate their vision, benefits and key objectives for pursuing this agenda, including:

- Establishing governance and an organizational structure design that enable the system to capitalize on its potential

- Evolving the culture to align with increasing system maturity

- Ensuring a sustainable economic model that is viable within the evolving reality of how health care is bought and paid for, including

  - Revenue model (contracting, pricing, payment models, etc.)

  - Cost structure

  - Revenue cycle

- Aligning clinical and other care delivery resources (programs, assets, capital, personnel) with the needs of the populations being served

- Establishing deeper and more meaningful relationships with patients to gain an increasingly holistic understanding of them, which supports fully informed "in the moment" decision-making
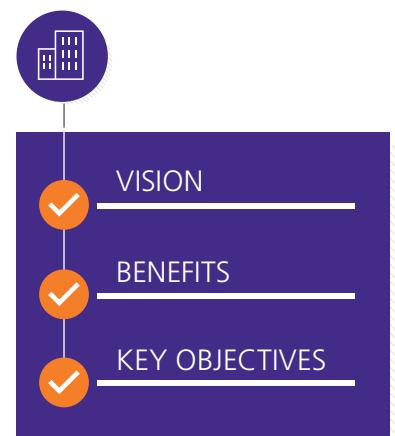
All of the above requires significant organizational change that will challenge leaders, clinicians, staff and even the communities affected by your decisions.

VISION

BENEFITS

KEY OBJECTIVES

Perspectives from the market

Viewpoints from those who've been there

Dr. Michael R. Jaff, president of Newton-Wellesley Hospital (NWH), a member of Partners Healthcare in Massachusetts, and Michelle Fisher, president of Primary Care and Retail Services at Piedmont Healthcare in Georgia, shared their perspectives on the journey each organization has taken to systemness.

Know your desired end state and keep your eyes on that goal.

Fisher said that while Piedmont's apparent goal has been to develop a statewide network given the number of acquisitions spreading from Atlanta, that doesn't go far enough from a mission perspective. "Our desired end state is to create a delivery model that maximizes the value we provide to our patients and enables us to proactively manage the health of populations. That's how we can best influence care to Georgians. A statewide network makes it possible for us to achieve that end state."

Identify desired partners long before they are in a position to be pursued.

Consider who will make a good partner based on your market. Fisher said that Piedmont carefully considers acquisition opportunities and creates composite scoring based on geography and other key attributes well in advance. "Adjacency to Atlanta has been important," Fisher said. "We felt going all the way to Savannah, particularly in our early growth, created risk in synergies."

She advised building intentional relationships with the executive teams in desirable systems. "Get in front of the market opportunities to avoid having to react."

Have the tough conversations before signing the documents.

Jaff noted that it can be tempting to wait until after a deal is made to really dig into how the collaboration will actually work. Will the smaller asset's board disappear? Likely that board assumes it won't. Does the president of the small organization now report to the parent organization? Perhaps there isn't even a need for the small entity president role.

"Make a checklist of the hard questions to discuss before you sign. You may not get them fully answered, but you at least have started a thoughtful conversation," Jaff said.

> **Get in front of the market opportunities to avoid having to react."**
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Take the time to really understand the value each acquisition brings.

Fisher observed that each acquisition brings something vital to the table. "We're constantly learning from them because each organization does something well, we want to leverage the partnership's collective strengths." Piedmont's executives work with new partners to conduct a deep assessment of how things currently work before they make any changes.

Remove redundancy.

In today's competitive environment, duplicate service lines, back-office functions and administrative infrastructure are no longer an option, Jaff said. Parallel specialty centers, from cancer to trauma to heart are not viable — particularly in the evolution to a value-based care model.

"Think of value-based care as an accelerator to systemness," he said. "The more duplication you have, the harder it is to manage. You simply can't win in a value-based contract when you are only getting paid for one part."

> **"**
> Think of value-based care as an accelerator to systemness.**"**
>
> – *Dr. Michael R. Jaff, president of Newton-Wellesley Hospital (NWH) in Massachusetts*
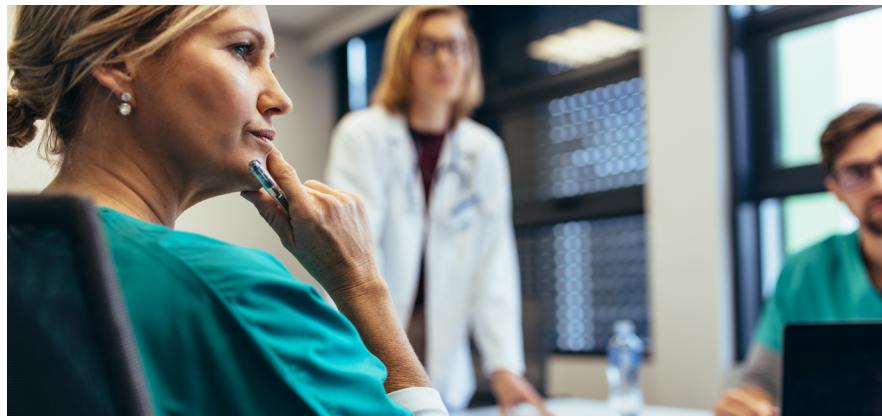
Expand your capabilities strategically.

Jaff pointed out that in your journey to systemness, you will need assets that you may not possess when you start, such as those related to population health. This includes data collection tools to account for how many dollars you spend on an episode of care and skilled case managers who can do the tracking and reporting. Be mindful of which organizations can augment your capabilities in a way that enables you to best serve the stakeholders who influence your success.

Recognize when big is big enough.

Fisher imagined a time when Piedmont could reach a point of diminishing returns. The synergies will be exponentially harder because the system is so large. It's important to factor what your growth capacity can and should be to integrate successfully and continue to optimize. Ask yourself where the sweet spot is in your organization before diseconomies begin to occur. Fisher noted, "That sweet spot changes over time as you hardwire your business and clinical processes across the network. Having conversation helps assess growth targets and timing. It has to be about smart growth or it will not yield the value and promises you made to those partners and communities."

Acknowledge the challenges of working in a matrixed organization.

There is an increasing loss of autonomy and decision-making authority as an organization moves deeper into systemness. Every individual decision has system implication so that no matter what door patients walk through, they can have the same consistent, high-quality experience.

Both leaders agreed that culture can make or break any systemness efforts. "Individual leaders have to be ready to take a step back so the system can take three steps forward," Fisher said.

Communicate your "why" consistently and repeatedly.

The biggest challenge is managing through change — particularly when that change is deeply affecting a specific area of the organization. Success requires consistent, repeated communication on why the change is needed and how it's going to help patients. "As you communicate your vision, how are you getting people excited about it so they are willing to make sacrifices to gain the greater good?" Jaff asked.

> *Individual leaders have to be ready to take a step back so the system can take three steps forward.*"
>
> – *Michelle Fisher, president of Primary Care and Retail Services at Piedmont Healthcare in Georgia*

Three questions to jumpstart your journey to systemness

Organizations increasingly recognize that bigger does not necessarily equal better. They need a system-wide strategy in order to be able to deliver patient-centric, high-quality care across a complex system in a way that maximizes value for all stakeholders. And some organizations may opt to maintain their independence, which is a viable option absent the right partner.

As both Jaff and Fisher know, achieving the full value of systemness can be difficult. But their experience also shows that it's highly attainable with a clear vision and strategic approach. How ready are you to begin or advance your strategy? Ask yourself and your colleagues these questions:

? What do you want to achieve through systemness?

? Where is your organization now in the journey?

? What barriers does your organization face in achieving true systemness?

Achieving the full value of systemness is highly attainable with a clear vision and strategic approach.

Answering these questions is just a first step in understanding your organization's systemness journey. Moving forward will also require the development of both a clear strategy and rigorous processes and infrastructure to effectively transform your organization.

Jump start your journey

If you are considering advancing your systemness journey, Optum Advisory Services can help you:

1 Set a clear vision for your organization's full potential with best-in-class system performance

2 Develop a plan to transform your organization and overcome hurdles to change

3 Provide the best-practice insights other systems have used to realize true value from scale

We bring together insights and assets from our work with hospitals and health systems, providers and payers.

- Optum Advisory Services' expertise in provider cost and operations, revenue cycle, IT, value-based care, physician alignment, and strategy, as well as payer strategy and operations

- The only provider-focused actuary practice in the U.S.

- Optum360 risk-sharing revenue cycle partnerships and managed services

- Optum Analytics data solutions

- Advisory Board's independent, leading-edge industry research

- Unparalleled data assets: 260M+ consumers, 188M+ claims, 100M+ clinical, 12M+ clinical and claims

>8:1
Average engagement return on investment

60 days
Average days to measurable performance impact

3–5%
Average operating margin improvement per project

23+ years
Average experience across consulting team of clinicians, process engineers, c-suite and financial executives, analytical experts

Meet our systemness experts

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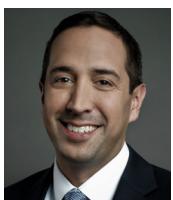
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Learn how Optum Advisory Services can help you determine and reach your organization's goals.

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Sources

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