Guidehouse

The Path to a Sustainable Operating Margin, Mission, and Market Essentiality

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Part 3: A More Strategic, Integrated, and Results-Oriented Approach to Lower Cost Structures

Cost management is of particular importance these days to providers and payers, as expense increases have outpaced revenue increases the past several years1 as noted in part two of our four-part series.

This article asserts that now is the time for the chief operating officer (COO), chief clinical officer (CCO), chief financial officer (CFO), and chief strategy officer (CSO) to own the cost-containment imperative. This includes calibrating cost-containment goals and committing to a methodology to change the work, workflow, workforce, and workspace to balance their margin, mission, and market priorities.

Exhibit 1: Traditional Cost Containment — How Not to Proceed
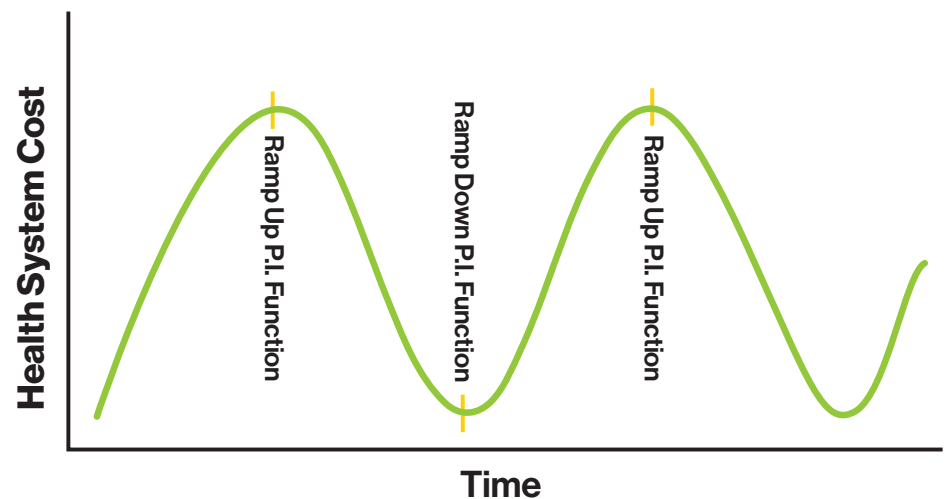
Problem No. 2: Costs are often insufficiently defined, and insufficiently managed, so opportunities are missed. It is important at the outset to define the costs to manage, both over the first year and over the next five years. Costs to define include:

- Clinical costs vs. nonclinical costs — What counts as clinical cost? Is clinical labor included, and what about nonclinical labor involved with delivering clinical services?
- Corporate costs vs. hospital costs — Are physician costs included in this classification?
- Unit cost vs. utilization-driven cost — Defined by department? DRG? Physician?
- Cost to payer vs. cost to provider vs. both, or all simultaneously?
- Use of year-over-year cost trend or an absolute reduction in costs?

Problem No. 3: Traditional cost containment has become too tactical, and it does not reflect the strategic changes in direction necessary to achieve sustainably lower costs. The excessive costs that remain lie in "white spaces" (i.e., processes, functions, departments, locations of services) that have avoided standardization, centralization, and automation. Further cost cutting could negatively impact quality and service, if the emphasis is exclusively on cutting cost.

That's why strategic conversations and decisions including the COO, CCO, CFO, and CSO are essential to decide what to standardize, centralize, and automate to balance efficiency, effectiveness, and speed to value. For example, consolidating a service (e.g., heart surgery) at a site, outsourcing revenue cycle, or investing in "clicks vs. bricks" go beyond a single department's span of decision-making, and often represent political lightning rods at many organizations. Thus, executive teams need to lead a more strategic, integrated approach to cost containment to balance margin, mission, and overall market position.

Cost Containment — A More Strategic, Integrated, and Results-Oriented Approach

So, what's a better approach that gives payers and providers the best chance of delivering sustainable cost-containment results, without damaging overall effectiveness? And how can the COO, CCO, CFO, and CSO formulate and execute a decisive plan that yields more substantial and sustainable cost reductions, all else being equal?

To answer that question, we looked to leading practices from broader, holistic management frameworks to inform what the executive team can do together to manage desired outcomes. We then translated highlights from each into a pragmatic, three-step process aimed at yielding sustainable cost containment without negatively impacting effectiveness and overall speed to market.

A Review of Management Frameworks

To move beyond traditional cost-containment tactics, it's valuable for a management team to reflect on leading management frameworks that apply to, but are not limited to, cost-containment initiatives.

Baldrige Excellence Framework:- An all-encompassing management framework providing a robust checklist that management can use to optimize seven key management systems:

1. Leadership, including roles/responsibilities of senior leadership and governance
2. Strategy, including how it's developed and implemented

3

3. Customers, including tapping into the voice of the customer and customer engagement
4. Measurement, including metrics and tools
5. Workforce engagement and environment
6. Operations, including work processes and ongoing operational effectiveness
7. Results orientation, including market, financial, quality, workforce, customer, and leadership results

ISO-9000: A set of international standards on quality management and assurance developed to help companies effectively document the elements needed to maintain an efficient quality system. The framework has the following objectives, which also apply to cost-containment initiatives:

- Meet stakeholder needs
- Be usable by all sizes of organizations
- Be usable by all sectors
- Be simple and clearly understood
- Connect quality management system to business processes

Similar to Baldrige, the ISO framework emphasizes a few key areas essential to containing costs and running the overall business:

- Customer focus, including the ability to understand current/future customers and meet/exceed those expectations.
- Leadership focus, including establishing direction, goals, and values while establishing trust and empowering/engaging employees.
- Process focus, including identifying improvement opportunities, deploying resources to meet high-priority needs, and measuring the impact.
- Evidence-based decision-making, including access to accurate and reliable data, and balancing data analysis with practical experience.
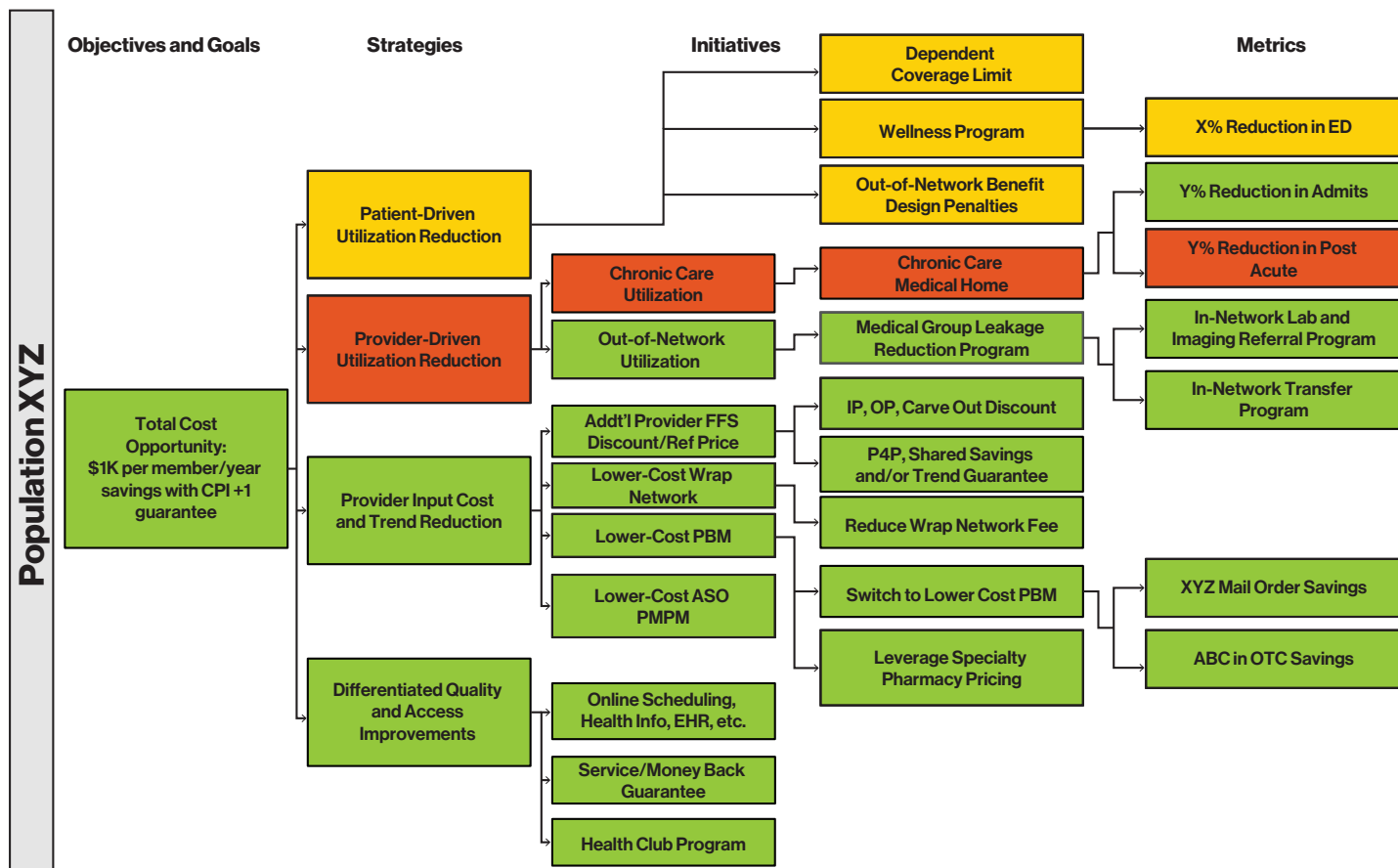
Objectives and Key Results (OKR) —As publicized in John Doerr's 2018 book *Measure What Matters*, OKR is a simple but powerful framework at the heart of various organizations' successes in areas that go well beyond cost containment.

The framework can be visualized as similar to other decision tree frameworks that cascade mission, vision, objectives, goals, strategies, tactics, and key results that matter. The better the metrics are managed, the higher the chances of achieving the objectives and goals.

Exhibit 2 shows how to apply OKR to containing total medical costs at a provider network, employer, or health plan. OKR provides the objectives and metrics bookends that management then connects by crafting the strategies and initiatives that bridge high-level objectives with the metrics that matter and end results.

Exhibit 2: Applying Objectives and Key Results

Objectives and Goals	Strategies	Initiatives		Metrics
			Dependent Coverage Limit	
			Wellness Program	**X% Reduction in ED**
	Patient-Driven Utilization Reduction		**Out-of-Network Benefit Design Penalties**	**Y% Reduction in Admits**
	Provider-Driven Utilization Reduction	**Chronic Care Utilization**	**Chronic Care Medical Home**	**Y% Reduction in Post Acute**
		Out-of-Network Utilization	**Medical Group Leakage Reduction Program**	**In-Network Lab and Imaging Referral Program**
Total Cost Opportunity: $1K per member/year savings with CPI +1 guarantee		**Addt'l Provider FFS Discount/Ref Price**	**IP, OP, Carve Out Discount**	**In-Network Transfer Program**
	Provider Input Cost and Trend Reduction	**Lower-Cost Wrap Network**	**P4P, Shared Savings and/or Trend Guarantee**	
		Lower-Cost PBM	**Reduce Wrap Network Fee**	
		Lower-Cost ASO PMPM	**Switch to Lower Cost PBM**	**XYZ Mail Order Savings**
	Differentiated Quality and Access Improvements	**Online Scheduling, Health Info, EHR, etc.**	**Leverage Specialty Pharmacy Pricing**	**ABC in OTC Savings**
		Service/Money Back Guarantee		
		Health Club Program		

Population XYZ

Lean Six Sigma — The focus of this framework is on removing waste and unwarranted variation in terms of defects, overproduction, excessive wait times, underleveraged talent, transportation, inventory management, and excessive processing/iterations. Some of the classic Lean Six Sigma tools and methods to leverage in cost-containment initiatives include:

- Lean tools: Value stream process mapping, error-proofing, productive maintenance, setup time reduction, reduced lot sizes, line balancing, schedule leveling, standardized work, and visual management.
- Six Sigma process steps: Recognize, define, measure, analyze, improve, control, standardize, and integrate.

High Reliability Organization (HRO) — Has been championed by clinical leadership at many organizations to improve quality of care by configuring people, processes, and tools to anticipate and contain mistakes before they occur. Like other frameworks, the emphasis is to design to the desired outcomes. But HRO also demands organizations thoughtfully consider standard vs. custom work, roles, performance thresholds/triggers, escalation processes, and automation technologies required to achieve levels of high reliability (Exhibit 3).

Exhibit 3: Achieving High Reliability[2]

☑ **To reach 99.5%-plus reliability**
- Significant technology automation related to integrating data and visualizing results of the metrics that drive overall performance

☑ **To reach 99.5% reliability**
- Aggressively investigate causes of ALL failures and redesign processes that prevent, identify, and mitigate

☑ **To reach 95% reliability**
- Build decision aids and reminders/alerts into systems
- Make desired action the default choice
- Have independent backups (e.g., train patients on what to expect)
- Standardized clinical protocols

☑ **To reach 80-90% reliability**
- Achieve through "intent, vigilance, and hard work"
- Use common equipment
- Implement standard order sheets
- Use personal checklists
- Incorporate daily/weekly feedback
- Conduct awareness training

No single framework is perfect for achieving sustainable cost containment. But leadership can readily pluck pearls of wisdom from each individual framework and strategically sequence them to support a three-step process to balance costs, effectiveness, and speed to market, as described in the next section.

1. Marilyn Sue Bogner, Human Error in Medicine, CRC Press, July 1, 1994, https://www.crcpress.com/Human-Error-in-Medicine/Bogner/p/book/9780805813869.

3-Step Process to Sustainable Cost Containment

To unlock the next level of cost containment, one must move beyond lists of tactics. Instead, leadership must employ a more rigorous management framework that frames the tough decisions leaders and line staff must tackle together to sustain cost reductions, without jeopardizing overall effectiveness and speed to market (Exhibit 4).

Exhibit 4: Executive Leadership Approach to Sustainable Cost Containment

Steps	Key Strategic, Operational, and Financial Decisions	Supporting Frameworks, Tools, and Methods
Step 1: Prioritize objectives and goals/metrics that matter most to the organization and its customer functions. Be mindful of the tradeoffs between efficiency (costs), effectiveness, and speed to market.	1. What cost goals matter most to customers and internal stakeholders? 2. How can costs/efficiency, overall effectiveness, and speed to market be balanced? 3. Who owns which goal? 4. How do efficiency and effectiveness goals cascade/intersect, including the budget, incentive structure, and performance improvement project list?	OKR and Baldrige
Step 2: Establish and execute a systemwide process, team, and methodology/language to assess the barriers and gaps. Design, develop, deploy, operationalize, and monitor strategies/initiatives/solutions to achieve the metrics that matter.	1. What's the approach for redesigning and deploying the processes, roles, and tools to operate corporate services, hospital operations, and health plan/network at a lower cost? 2. How can structure, roles, and accountabilities be organized and streamlined to achieve sustainable cost containment? 3. What are the major workflow issues related to clinical logistics that generate over half the waste in the system (e.g., suboptimal staffing, scheduling, coding, documentation, referrals, escalation processes). 4. How do we leverage technology to accelerate return on investment (ROI)? 5. Who is accountable for what, relative to the design, deployment, and ongoing operations phases of change?	Lean Six Sigma and Baldrige Clear P&L ownership with refreshed service level agreements with corporate services support functions, including project and performance management.
Step 3: Automate near-real-time monitoring platform command center to help management, front-line personnel, and customers anticipate/contain misses, together	1. What's the toolkit/technologies needed to integrate data and visualize cascading metrics from strategy to budgets to front-line operations? 2. What apps will be placed on the platform to drive early wins/ROI and self-fund the journey to a lower cost point?	HRO toolkit for leading practices

Use Case — Perioperative Services

The table below captures Steps 1 and 2, the prerequisites to standardizing and automating the orders and processes necessary to become a fundamentally more cost-effective operation.

Exhibit 5: Perioperative Use Case – Steps 1 and 2

Step 1: Prioritize objectives and goals/metrics that matter most to the organization and its customer functions.	Step 2: Establish and execute a systemwide process, team, and methodology/language to assess the barriers and gaps.
Metric 1: First case on-time starts	First case on-time start steps/benchmarks: i. Define, communicate, and monitor start time and associated performance expectations of anesthesia, nursing, surgeons, ancillary staff, and patients. ii. Schedule and communicate nursing, physician, and anesthesia assignments prior to date of service to facilitate planning and smooth execution of the daily schedule. iii. Collect all required elements (e.g., H&P, consents, financial clearance) by noon the previous day. iv. Utilize and monitor delay codes to track/report reason for delays, review delay data, and take swift action to correct late starts. For example, deny physicians preferred times if they fail to arrive on time.
Metric 2: Turnover time (total joint replacements vs. gynecologist/general surgeon vs. ophthalmology/plastics/ENT)	Turnover time steps/benchmarks i. Operationalize and monitor turnover time targets, established by specialty or type of case. ii. Manage parallel processes to allow more timely movement of the patient into the operating room (OR).
Metric 3: Block and OR prime-time suite utilization	OR suite utilization steps/benchmarks i. Staff OR from an hours and number of rooms perspective to achieve OR suite utilization of 75%. ii. Clarify "rules of the road" on refine block scheduling policy, and enforce compliance to enable equitable access to the schedule and maximize resource utilization.
Metric 4: Productivity including OR worked hours per paid hour and MSTA worked hours per paid hour, laparoscopic supply, and equipment cost/case	OR productivity steps/benchmarks i. Leverage productivity benchmarking tools. ii. Adopt staffing recommendations provided by professional organizations (e.g., AORN, ASATT) to ensure sufficient coverage and efficient utilization of resources. iii. Develop specific role and responsibilities for additional six FTEs. iv. Assess drivers of increased worked hours and premium labor, including overtime and agency staff. v. Implement clear definitions of add-on, urgent, and emergent cases to compress day's schedule and avoid peaks and valleys. vi. Close/reconfigure space where projected supply exceeds demand.
Metric 5: Timely patient screenings and workups	Timely screening, workup, and preparation steps/benchmarks i. Screen for obstructive sleep apnea, tobacco use, risk factors for CVA and VTE. ii. Workup activities including obtaining necessary labs, imaging studies, and consults prior to operation. iii. Plan for strength exercise training and pulmonary prehabilitation. iv. Refer to primary care physician for follow-up within agreed-upon time frame.

Before proceeding to Step 3, it's important for executive management to prioritize the metrics that matter over 12-18 months. Here is a specific example of how one organization used its prioritized metrics to drive work redesign in a sequenced manner.

Metrics that Matter	Work, Workflow, Workforce, and Workplace Changes Over Time to Align Strategy, Operations, and Finance within Perioperative Services	Team
Lower cost, throughput, and labor goals/metrics	Tactics: • Define, communicate, and monitor start times, turnover times, OR suite utilization, by provider, utilizing delay codes. • Reduce overtime and use of locums. Time horizon: Six months	Local OR operating teams
Over- and underuse of services vs. clinical guidelines goals/metrics	Tactics: • Reduce utilization/variation of excessive supplies, resources, and standardize clinical order sets. • Improve presurgical screening, education, clearance preprocedure, and other clinical logistics that impact the OR. Time horizon: 18 months	Hybrid team with considerable provider input via clinical guidance council, other clinical body
Higher revenues, volumes, referrals, and productivity goals/metrics	Tactics: • Centralize surgical services to maximize productivity/capacity, actively steer surgical referrals in network, add hours/sites of care where greatest unmet need exists. • Adjust incentive model accordingly. Time horizon: 18-plus months	More service line-focused, across the system, cross-continuum

The final step is to translate the metrics that matter into a standard format that IT and other staff can use to standardize and automate processes and escalation paths based on specific triggers across the patient's journey.

Evidence-Based Practice/ Location	Process Step	Type of Work, Associated Triggers/Metrics, Role, and Data Sources	Essential Triggers/Metrics to Achieve Efficiency and Effectiveness Target (Y/N)
Pre-Procedure			
	Order and Fulfill	Patients seen in presurgery screening (PSS) or phoned to complete presurgical assessment (Metric: PSS percentage)	Y
	Communicate and Educate	Patients arrive on time as instructed	
	Communicate and Educate	Patients arrive having completed presurgical activities as instructed	
	Order and Fulfill	Anesthesia clearance prior to scheduled case date as instructed in policy and procedure	Trigger/alert if not completed <62 hours of scheduled case date
	Fulfill	Financial clearance is completed	Trigger/alert if not completed <62 hours of scheduled case date

Evidence-Based Practice/ Location	Process Step	Type of Work, Associated Triggers/Metrics, Role, and Data Sources	Essential Triggers/Metrics to Achieve Efficiency and Effectiveness Target (Y/N)
Prep-op			
	Prepare	Case cart preparation	
	Fulfill and Validate	Clinical information is available and complete upon patient arrival, including H&P, Lab, EKG, consents, imaging, medical clearance (Metric: Chart completeness)	Y
	Order and Fulfill	Anesthesia readily completes work (e.g., nerve block management)	
	Order and Fulfill	Surgeons readily complete work	
	Order and Fulfill	Transport patient to OR as scheduled	
Intra-op			
	Prepare and Validate	OR case prepared correctly, including instruments, supplies, and equipment	
	Order and Fulfill	Patient arrives in OR at scheduled start time (Metric: First case on-time start)	Y
	Order and Fulfill	Anesthesia readily completes work (e.g., epidural, IV line)	
	Fulfill	Incision (Metric: Pt-in to incision time)	Y
	Fulfill	Timely closure	
	Fulfill	Transport patient to PACU	
	Communicate and Monitor	Complete turnover task sequence as clearly defined in process flows, including anesthesia, surgery, circulator, scrub, OR ancillary staff (Metric: Turn over time, room utilization)	Y

Evidence-Based Practice/ Location	Process Step	Type of Work, Associated Triggers/Metrics, Role, and Data Sources	Essential Triggers/Metrics to Achieve Efficiency and Effectiveness Target (Y/N)
Post-op			
	Communicate and Monitor	OR-PACU handoff	
	Communicate and Monitor	Monitor patient status	
	Predict and Order	Anesthesia is readily available	
	Communicate	PACU nurse communicates with care provider of next level of care	
	Predict and Order	PACU patients meeting discharge criteria, get a timely transfer to next level of care (Metric: PACU length of stay, PACU extended stay)	Y
	Predict and Order	Bed availability of step-down unit (Metric: PACU extended stay)	Y

Summary

Organizations whose leaders have adopted this three-step process are well-positioned to reduce their cost structure to support their chosen margin, mission, and go-to-market goals/strategies. We will apply this three-step process to managing volumes and revenues in a more holistic, team-based manner in the next installment of this series.

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