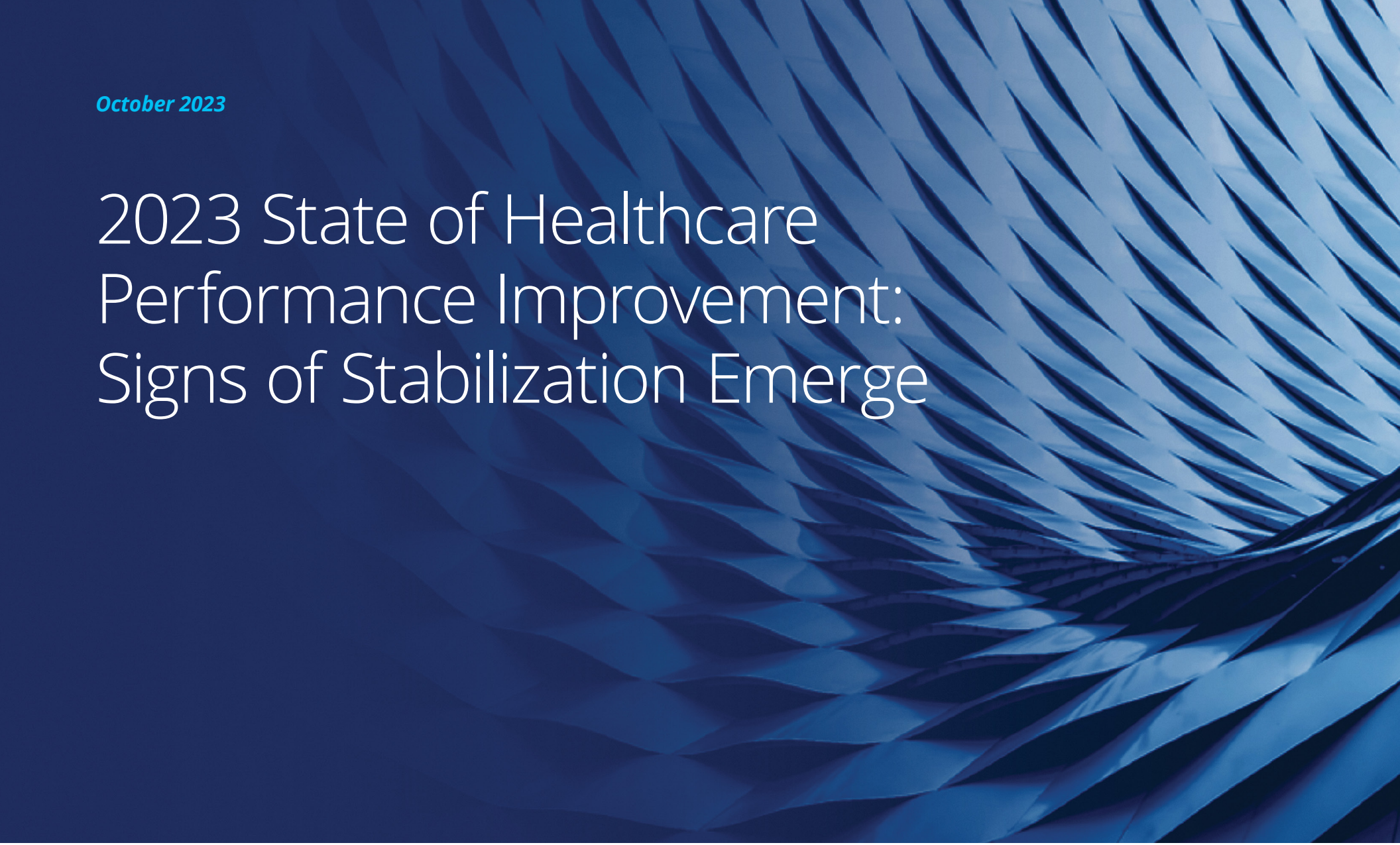
October 2023

2023 State of Healthcare Performance Improvement: Signs of Stabilization Emerge



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Introduction

Hospitals and health systems are seeing some signs of stabilization in 2023 following an extremely difficult year in 2022. Workforce-related challenges persist, however, keeping costs high and contributing to issues with patient access to care. The percentage of respondents who report that they have run at less than full capacity at some time over the past year because of staffing shortages, for example, remains at 66%, unchanged from last year's *State of Healthcare Performance Improvement* report. A solid majority of respondents (63%) are struggling to meet demand within their physician enterprise, with patient concerns or complaints about access to physician clinics increasing at approximately one-third (32%) of respondent organizations.

> ***"The clinical workforce is stabilizing and will stabilize, but to a different new normal."***
>
> **— Survey Respondent, Academic Health System**

Most organizations are pursuing multiple strategies to recruit and retain staff. They recognize, however, that this is an issue that will take years to resolve—especially with respect to nursing staff—as an older generation of talent moves toward retirement and current educational pipelines fail to generate an adequate flow of new talent. One bright spot is utilization of contract labor, which is decreasing at almost two-thirds (60%) of respondent organizations.

Many of the organizations we interviewed have recovered from a year of negative or breakeven operating margins. But most foresee a slow climb back to the 3% to 4% operating margins that help ensure long-term sustainability, with adequate resources to make needed investments for the future. Difficulties with financial performance are reflected in the relatively high percentage of respondents (24%)

Introduction *(continued)*

who report that their organization has faced challenges with respect to debt covenants over the past year, and the even higher percentage (34%) who foresee challenges over the coming year. Interviews confirmed that some of these challenges were "near misses," not an actual breach of covenants, but hitting key metrics such as days cash on hand and debt service coverage ratios remains a concern.

As in last year's survey, an increased rate of claims denials has had the most significant impact on revenue cycle over the past year. Interviewees confirm that this is an issue across health plans, but it seems particularly acute in Medicare Advantage plans for those states that have a higher penetration of Medicare Advantage plans. A significant percentage of respondents also report a lower percentage of commercially insured patients (52%), an increase in bad debt and uncompensated care (50%), and a higher percentage of Medicaid patients (47%).

Supply chain issues are concentrated largely in distribution delays and raw product and sourcing availability. These issues are sometimes connected when difficulties sourcing raw materials result in distribution delays. The most common measures organizations are taking to mitigate these issues are defining approved vendor product substitutes (82%) and increasing inventory levels (57%). Also, as care delivery continues to migrate to outpatient settings, organizations are working to standardize supplies across their non-acute settings and align acute and non-acute ordering to the extent possible to secure volume discounts.

> ***"The biggest risk to our future is the stability of our nursing staff."***
>
> **— Survey Respondent, Regional Health System**

Survey Highlights

98% of respondents are pursuing one or more recruitment and retention strategies

90% have raised starting salaries or the minimum wage

73% report an increased rate of claims denials

71% are encountering distribution delays in their supply chain

70% are boarding patients in the emergency department or post-anesthesia care unit because of a lack of staffing or bed capacity

66% report that staffing shortages have required their organization to run at less than full capacity at some time over the past year

63% are struggling to meet demand for patient access to their physician enterprise

60% see decreasing utilization of contract labor at their organization

44% report that inpatient volumes remain below pre-pandemic levels

32% say that patients concerns or complaints about access to their physician enterprise are increasing

24% have encountered debt covenant challenges during the past 12 months

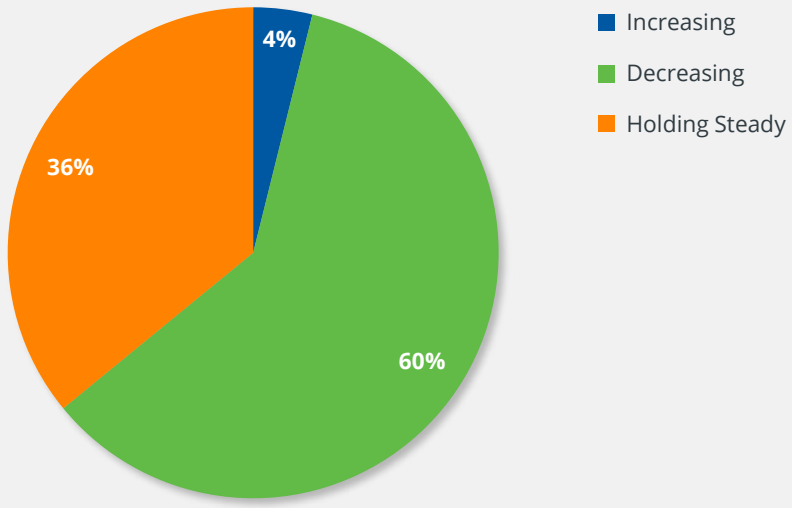
None of our respondents believe that their organization has fully optimized its use of the automation technologies in which it has already invested

Workforce

While workforce-related issues remain as perhaps the greatest challenge hospitals and health systems face, this year's survey brought some good news: utilization of contract labor appears to be declining. Whereas last year's survey indicated that contract utilization was increasing at 27% of organizations, this year's survey indicates that increased utilization is occurring at only 4% of organizations. At the same time, 61% of respondents to this year's survey say contract labor utilization is decreasing, compared to 44% in last year's survey (Figure 1).

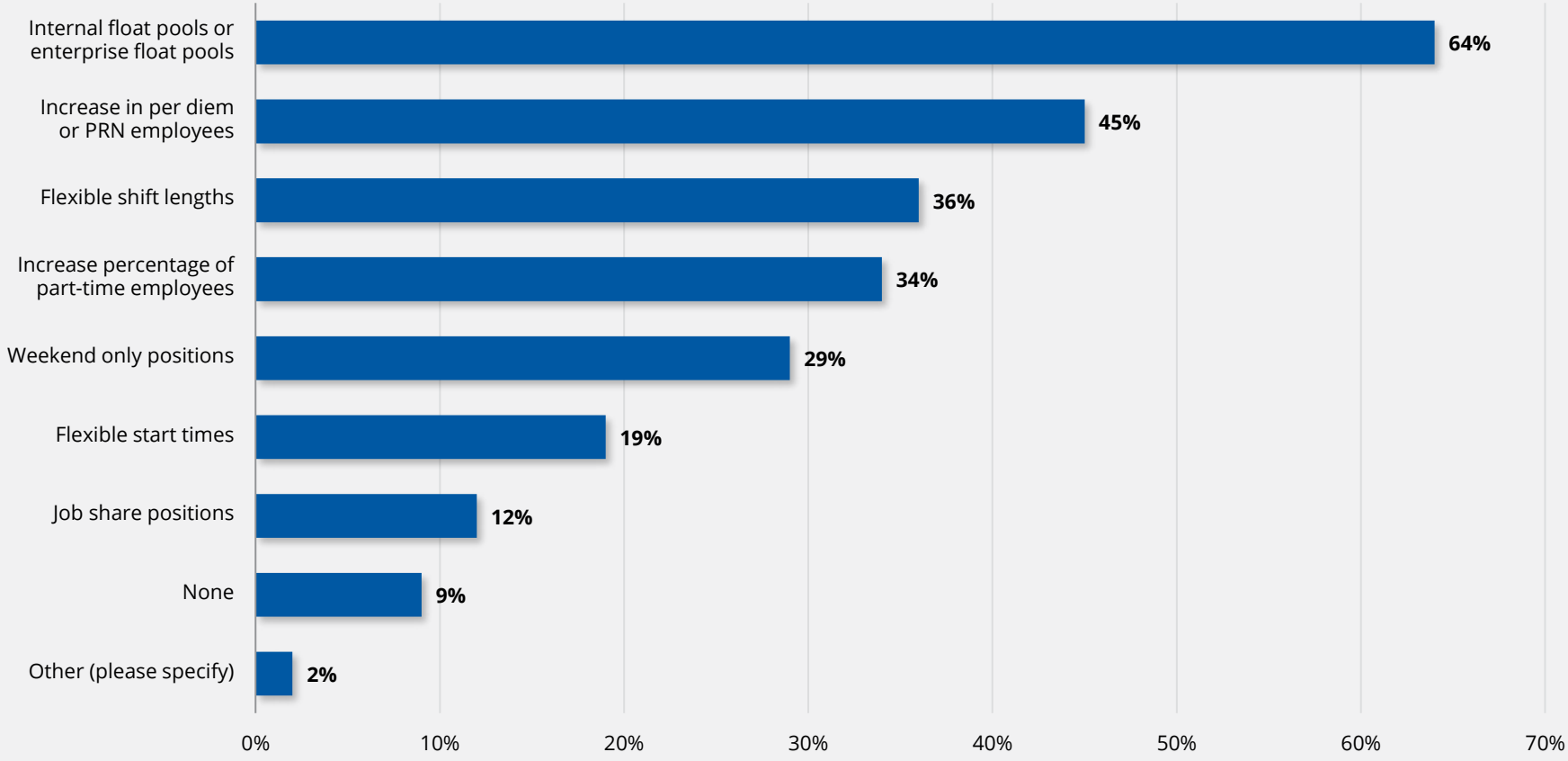
The ability to reduce reliance on contract labor may be driven in part by the significant percentage of organizations that are using such tactics as internal or enterprise float pools (64%) or a greater number of per diem or pro re nata (PRN) employees (45%) in lieu of more expensive contract labor (Figure 2). Interviewees also noted that contract labor rates have softened and that they have seen some nursing staff who left during the pandemic to take agency positions now returning as full-time employees.

FIGURE 1: Utilization of Contract Labor



Workforce (continued)

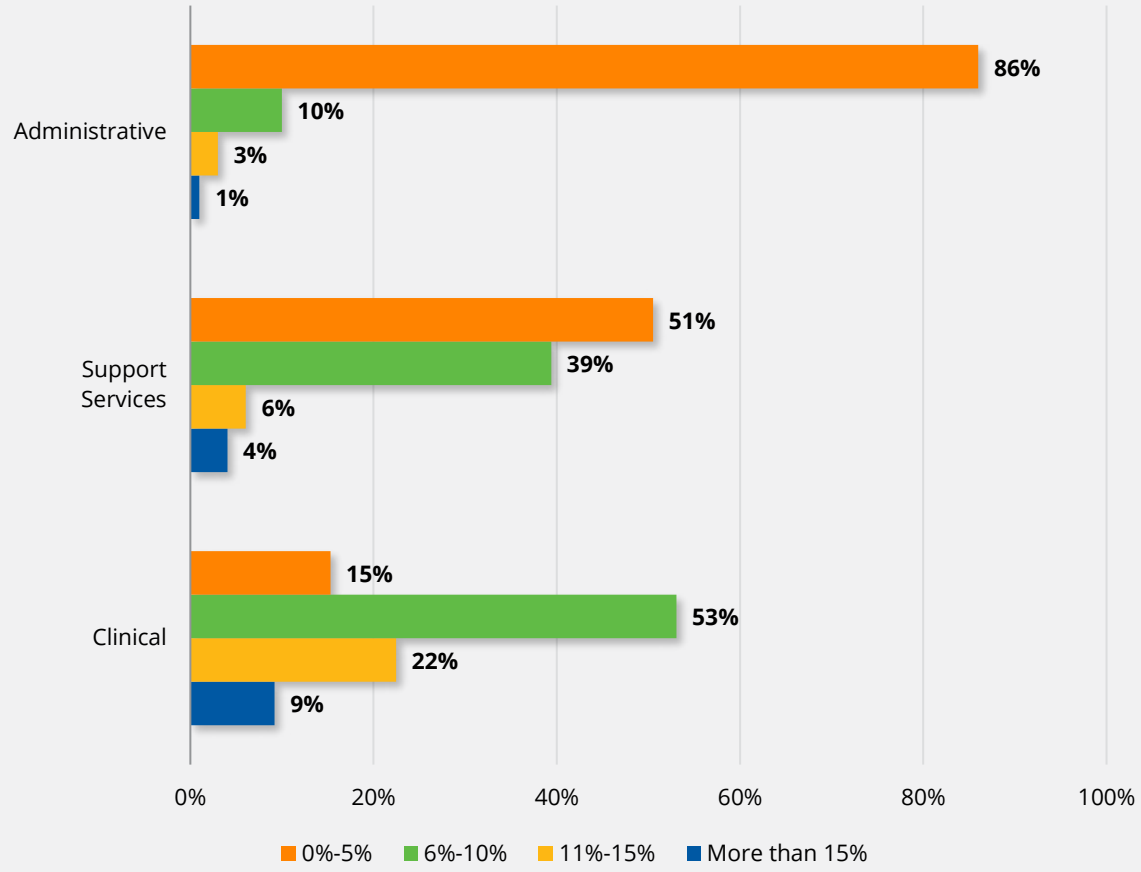
FIGURE 2: Adoption of Staffing or Scheduling Programs to Mitigate Staffing Shortages



Note: Respondents were asked to choose all that apply.

Workforce (continued)

FIGURE 3: Percentage Increase in Wages for Administrative, Support, and Clinical Staff Over the Past Year



Salaries and Wages

Staffing shortages continue to put upward pressure on wages, especially for clinical staff. Survey results indicate that most organizations (86%) have been able to hold administrative wage and salary increases to 5% or less, but a similar percentage of respondents (85%) says wage and salary increases for clinical staff have exceeded 6%, with one-third (31%) reporting increases in excess of 11% (Figure 3).

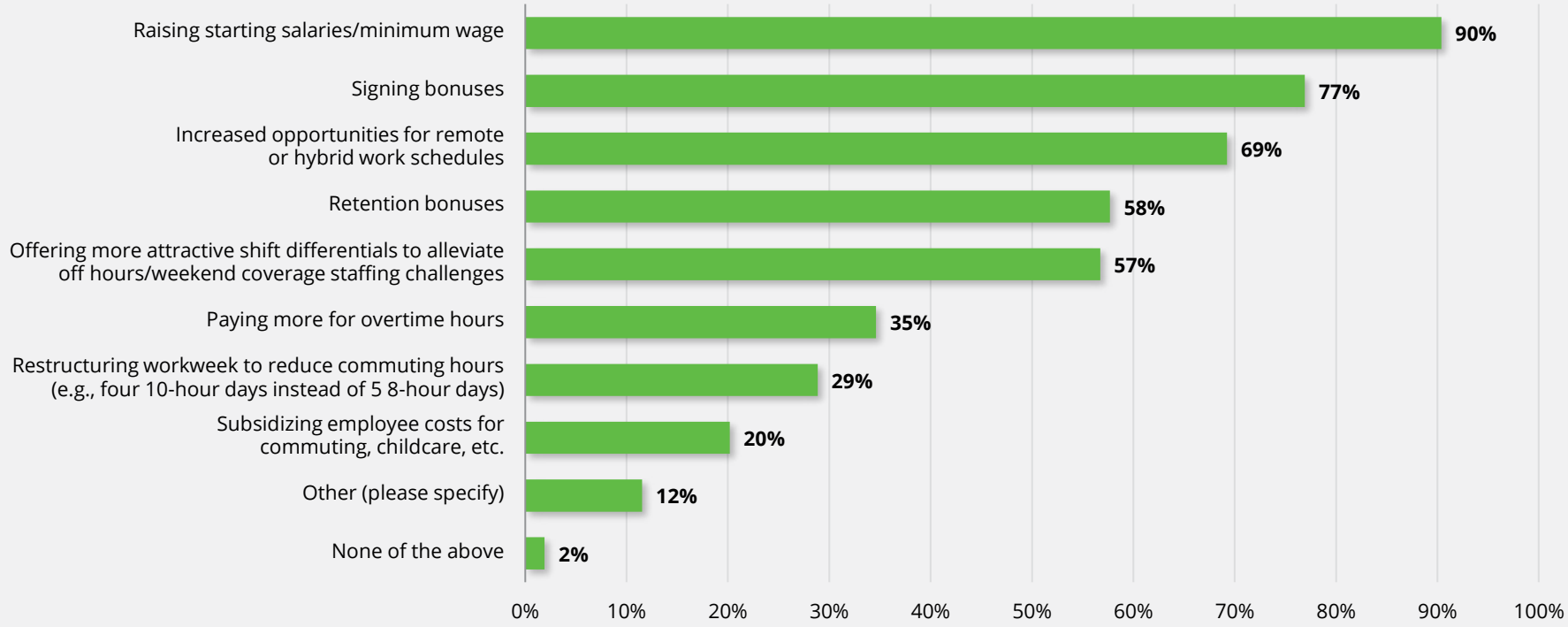
Workforce (continued)

Recruitment and Retention

Wage and salary increases or enhancements have been among the most frequently adopted tools for recruitment and retention initiatives. Ninety percent of respondents report raising starting salaries or the minimum age, 77% are using signing bonuses, 58% are offering retention bonuses, and 35% are paying more for overtime hours (Figure 4).

> *"I wonder what we will see when retention bonuses run out at the end of this year."*
>
> — Survey Respondent, Regional Health System

FIGURE 4: Adoption of Recruitment and Retention Strategies



Note: Respondents were asked to choose all that apply.

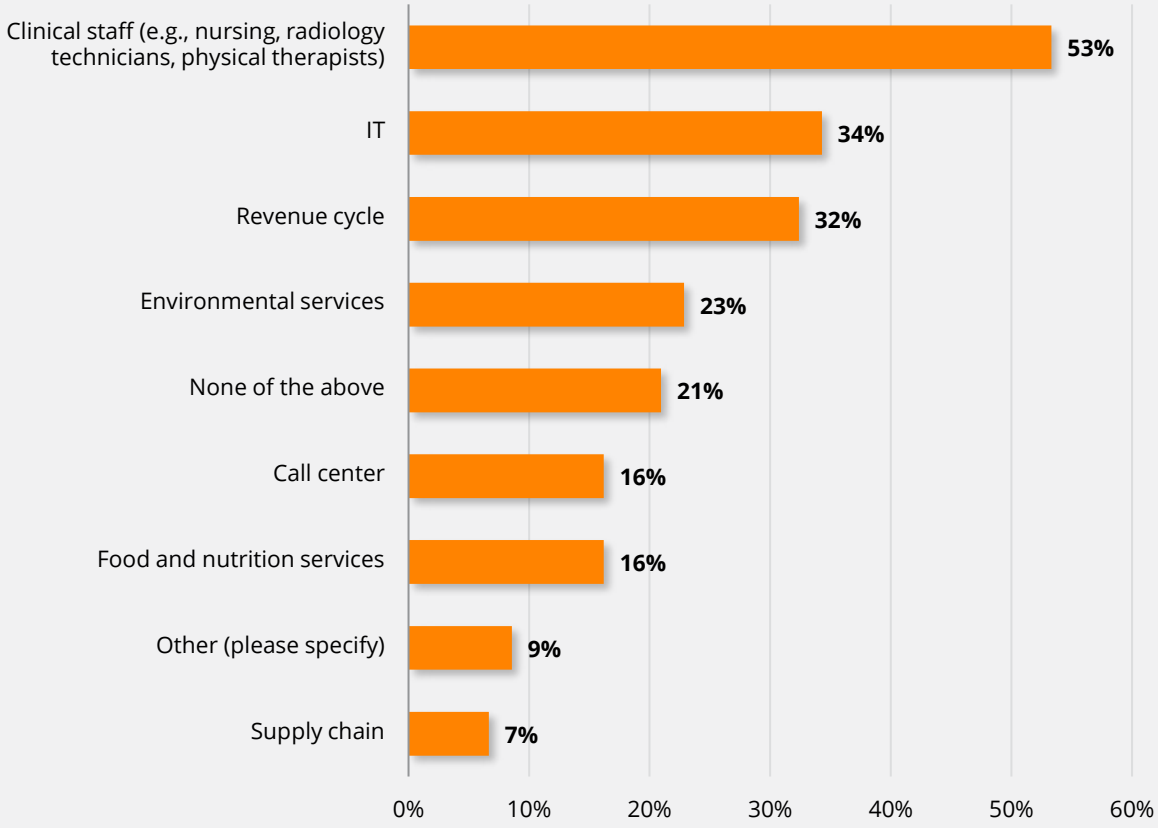
Workforce (continued)

Providing greater flexibility for staff is also a focus, with 69% of respondents noting increased opportunities for remote or hybrid work schedules at their organization, and 57% of organizations offering more attractive shift differentials to alleviate off-hour and weekend coverage staffing challenges. Almost one-third of organizations are restructuring the workweek to reduce commuting hours, and one in five are subsidizing employee costs for expenses such as commuting and childcare.

Reducing Workforce Expenses

Workforce expense reduction efforts have been focused largely on reducing the need for contract labor. Outsourcing offers one potential solution for workforce expense savings, but with the exception of clinical staff, no more than approximately one-third of respondent organizations were pursuing outsourcing in areas such as IT, revenue cycle, environmental services, food and nutrition, supply chain, and call center (Figure 5). The relatively high number for clinical staff outsourcing has likely been

FIGURE 5: Percentage of Respondent Organizations Pursuing Outsourced Solutions, by Area



Note: Respondents were asked to choose all that apply.

driven by higher-than-normal utilization of contract nurses, according to our interviewees. Interviewees note that outsourcing can be difficult because of health systems' role as one of the most significant community employers; it is easiest to implement in areas where talent is difficult to get locally.

A recent article in the *Wall Street Journal* predicts a long-term labor crisis across industries, not just in healthcare, absent growth in the number of people active in the workforce or growth in productivity through solutions such as automation.[1] Automation offers some promise, but it will take time for that promise to be realized. The vast majority of our respondents (84%) describe their organization's level of investment in various automation technologies as "negligible" or "modest" (Figure 6), and none of the respondents believe that their organization has fully optimized the automation technologies it has invested in (Figure 7).

FIGURE 6: Level of Investment in Automation Technologies

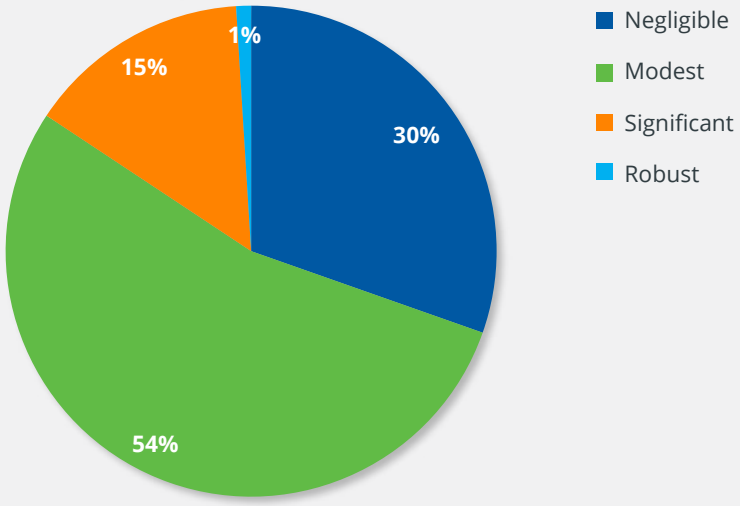
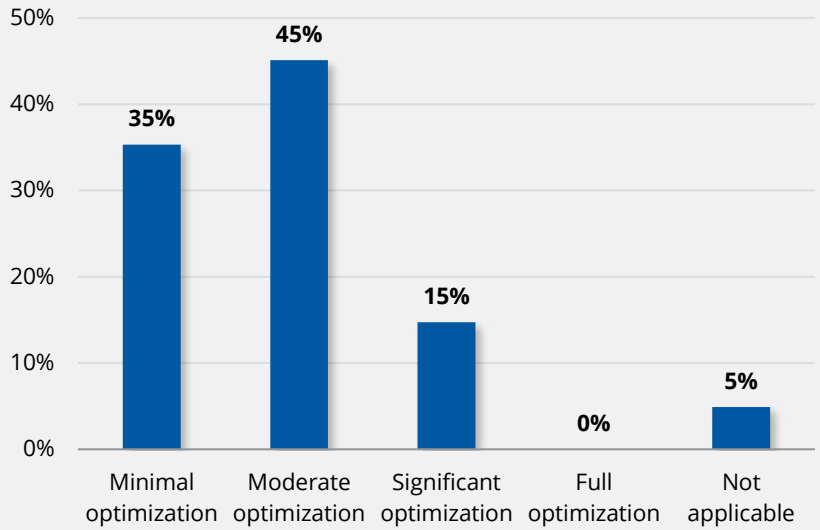


FIGURE 7: Optimization of Automation Technologies Already Invested In



[1] L. Weber and A. Pipe: "Why America Has a Long-Term Labor Crisis, in Six Charts." *Wall Street Journal*, Sept. 25, 2023. https://www.wsj.com/economy/jobs/labor-supply-economy-jobs-charts-3285a5b7

Workforce (continued)

Action Items: Workforce

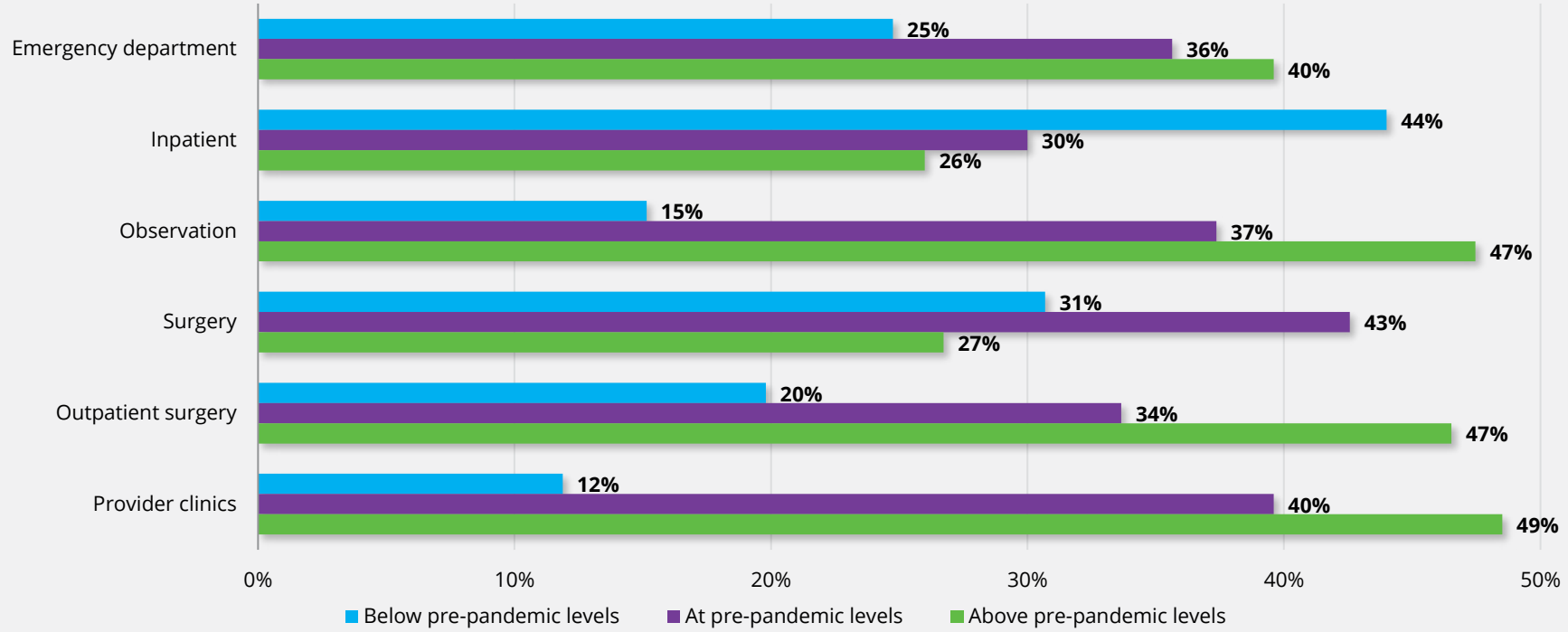
- Consider advanced predictive demand modeling. This can improve staffing plans and minimize unnecessary "flexing."
- Understand hourly demand patterns. This is useful in the development of atypical shift lengths and start times, which enable staffing to demand and provide flexibility for staff.
- Create a robust, flexible staffing pool, which can be an effective alternative to travel contracts.
- Implement career ladders for clinical staff to improve retention and overall job satisfaction.

Volume and Revenue

Volume and Care Transitions

Volume data from the survey reflects the ongoing shift from inpatient to outpatient settings, with almost half of respondents saying that volumes are above pre-pandemic levels for outpatient surgery and provider clinics. Observation volumes also are above pre-pandemic levels at 47% of respondent organizations. In contrast, inpatient volumes are below pre-pandemic levels at 44% of respondent organizations, and surgery volumes remain below pre-pandemic levels for approximately one-third of respondents (Figure 8).

FIGURE 8: Volumes by Service Area

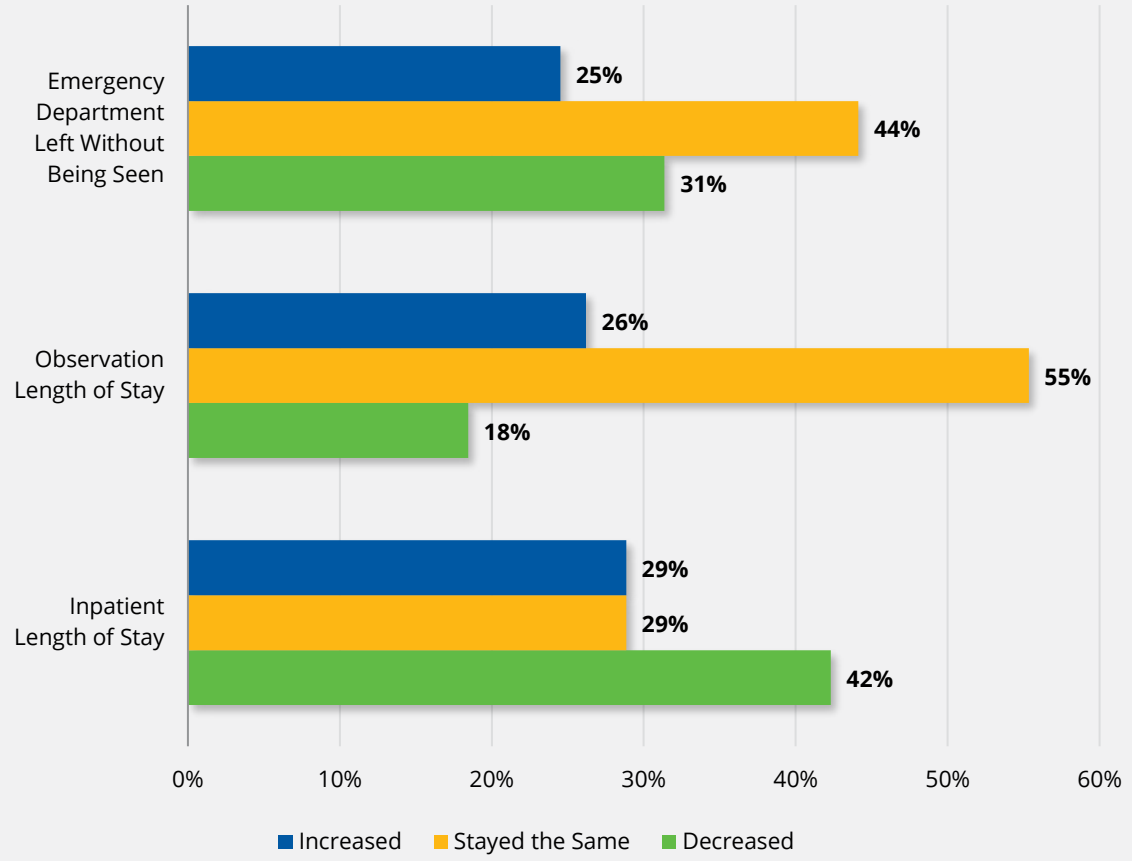


Volume and Revenue *(continued)*

In last year's report, we noted that staffing issues at post-acute facilities were having a negative impact on inpatient occupancy rates, as delays in discharging patients drove up inpatient length of stay for almost seven in 10 respondents. There was good news in this year's survey: 42% of respondents reported that inpatient length of stay was decreasing, and the percentage of those who continued to see increases fell below 30% (Figure 9). One interviewee noted that their organization realized they had to move beyond the post-acute factor for timely discharge and focus on their own internal processes, with positive results.

With a higher percentage of respondents noting above pre-pandemic volumes for both observation and emergency department patients, the survey results also showed that improvements in observation length of stay and "leaving the emergency department without being seen" metrics were less pronounced than for the inpatient length of stay metric.

FIGURE 9: Year-Over-Year Change in Length of Stay and Emergency Department Metrics



Volume and Revenue *(continued)*

FIGURE 10: Staffing Shortages Have Required Organization to Run at Less Than Full Capacity

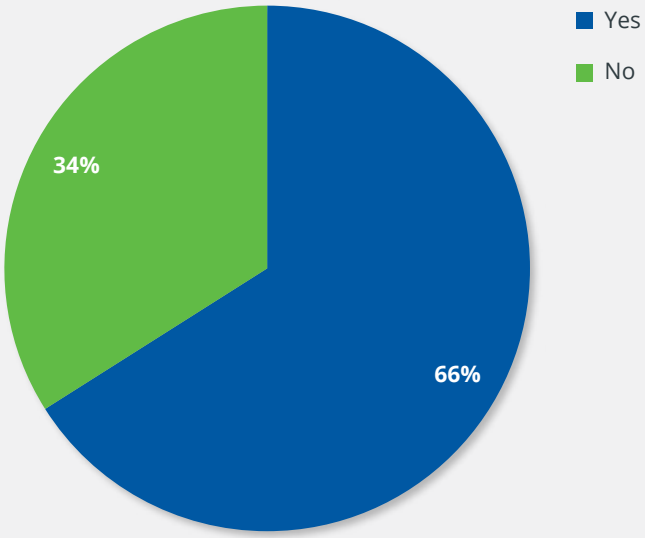
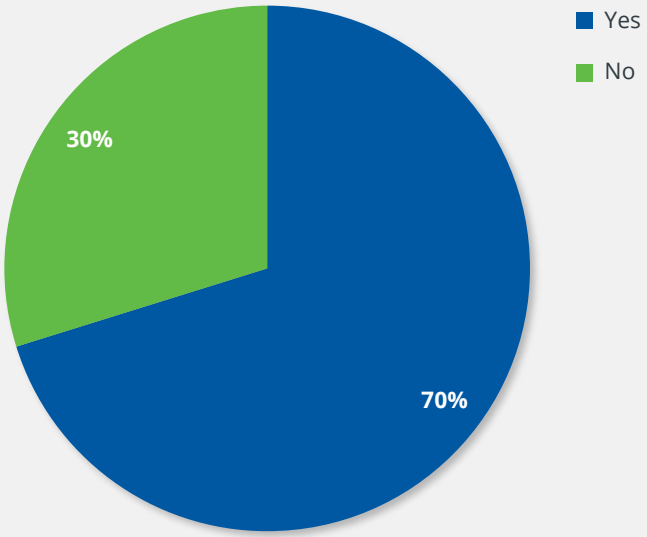


FIGURE 11: Lack of Staffing or Bed Capacity Requires Boarding Patients in ED or PACU



Staffing issues still pose challenges for hospital and health system volumes and patient throughput. The percentage of respondents reporting that staffing shortages required their organization to run at less than full capacity some time over the past year remained at 66%, the same percentage as in last year's report (Figure 10). And an even higher percentage of respondents reported that their organizations are boarding patients in the emergency department or post-anesthesia care unit (PACU) because of a lack of staffing or bed capacity (Figure 11).

> *"We could solve our financial problems by solving two issues: labor costs and throughput."*
>
> — Survey Respondent, Regional Health System

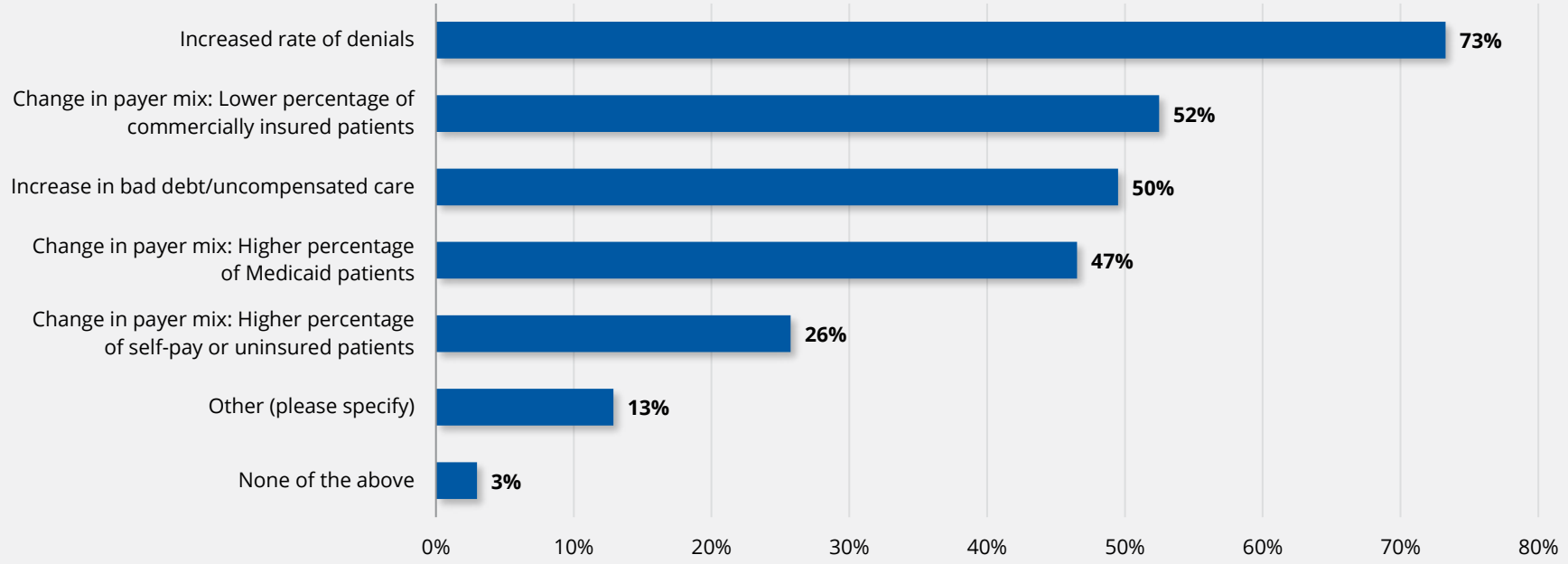
Volume and Revenue (continued)

Revenue

Staffing and capacity issues that put constraints on patient throughput and occupancy rates have obvious implications for revenue. Metrics on length of stay and the number of patients who must be boarded in the emergency department or PACU because of strained capacity should be monitored closely and prioritized for process improvement efforts if they show signs of deterioration.

Denials management is another critical area of focus. Nearly three-fourths of our survey respondents (73%) report an increased rate of denials over the past year (Figure 12). Interviewees note that they are using scorecards to track denial rates by payer and are using that data in contract negotiations. Although interviewees note that denials management is an issue across payers, the problems seem particularly acute in markets that have a higher penetration of Medicare Advantage plans.

FIGURE 12: Impacts on Revenue Cycle Over the Past Year



Note: Respondents were asked to choose all that apply.

Volume and Revenue *(continued)*

Approximately half of the survey respondents also note a lower percentage of commercially insured patients (52%) and a higher percentage of Medicaid patients (47%). Fifty percent of respondents also report increases in bad debt and uncompensated care. We believe these are indicative of long-term demographic shifts that require two responses.

First, organizations must find a business model that enables them to, at a minimum, break even on government program payments and ideally generate a positive margin. Second, organizations should be proactive in articulating a clear financial assistance policy and engaging patients early in the process to determine their qualifications for financial assistance.

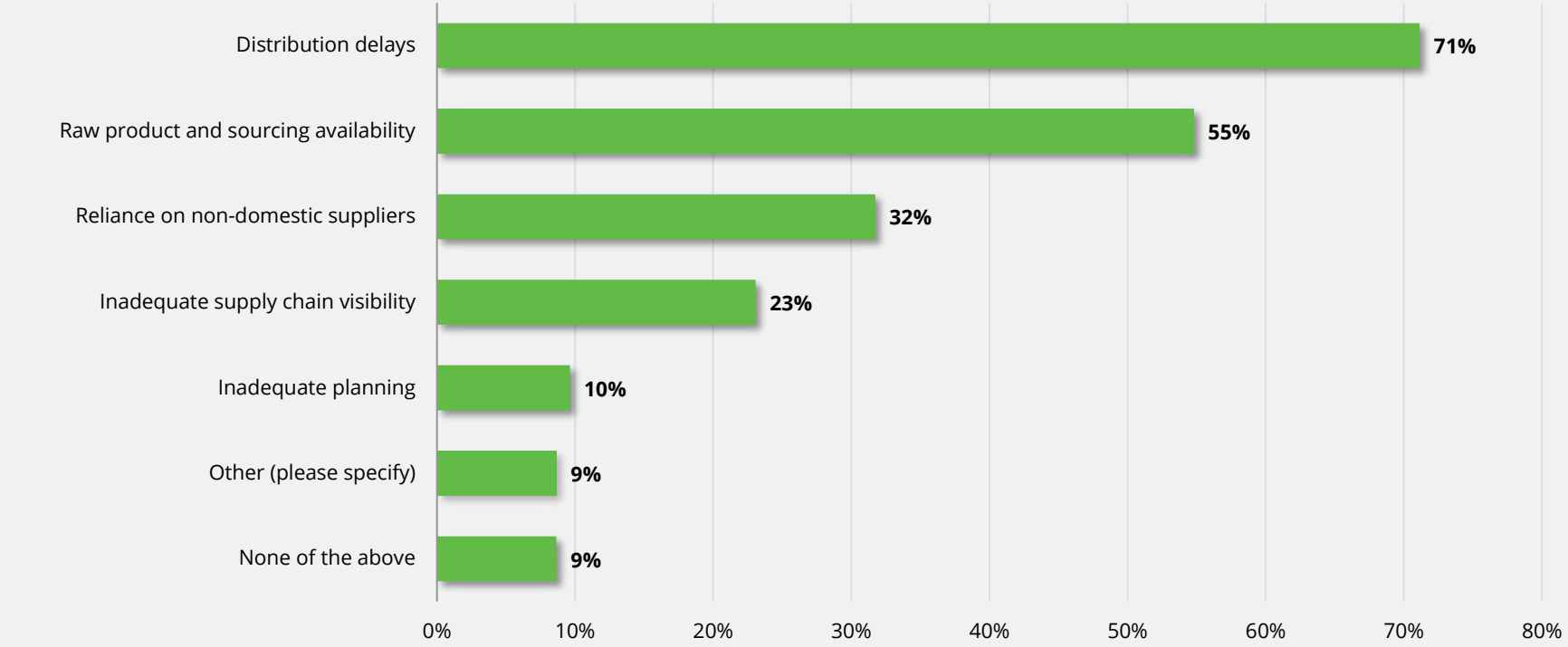
Action Items: Volume, Care Transitions, and Revenue

- Designate a specific observation unit, or cohort observation patients together as much as possible.
- Ensure accurate patient status at all points of entry.
- Leverage medical necessity and denial data as catalysts for driving process improvement activities.
- Initiate discharge planning upon admissions.
- Establish processes to train the Chief Medical Officer, medical directors, and physician advisors to educate their provider peers on the importance of length of stay, medical necessity, patient status, and overall patient throughput.
- Implement robust multi-disciplinary rounds to improve patient flow.
- Focus on improving turnaround times in procedural areas for improved efficiency and revenue growth.
- Track claims denial rates by health plan and maintain scorecards comparing performance across health plans. Review these results with the managed care contracting team.

Supplies and Purchased Services

Supply chain issues appear to have improved, with only two factors contributing to disruptions for 50% or more of the survey respondents. Distribution delays are clearly the leading factor, reported by 71% of respondents. Second is raw product and sourcing availability, reported by 55% of respondents (Figure 13). Interviewees note that these factors are often linked when the inability to source raw product contributes to distribution delays.

FIGURE 13: Factors Contributing to Supply Chain Disruptions



Note: Respondents were asked to choose all that apply.

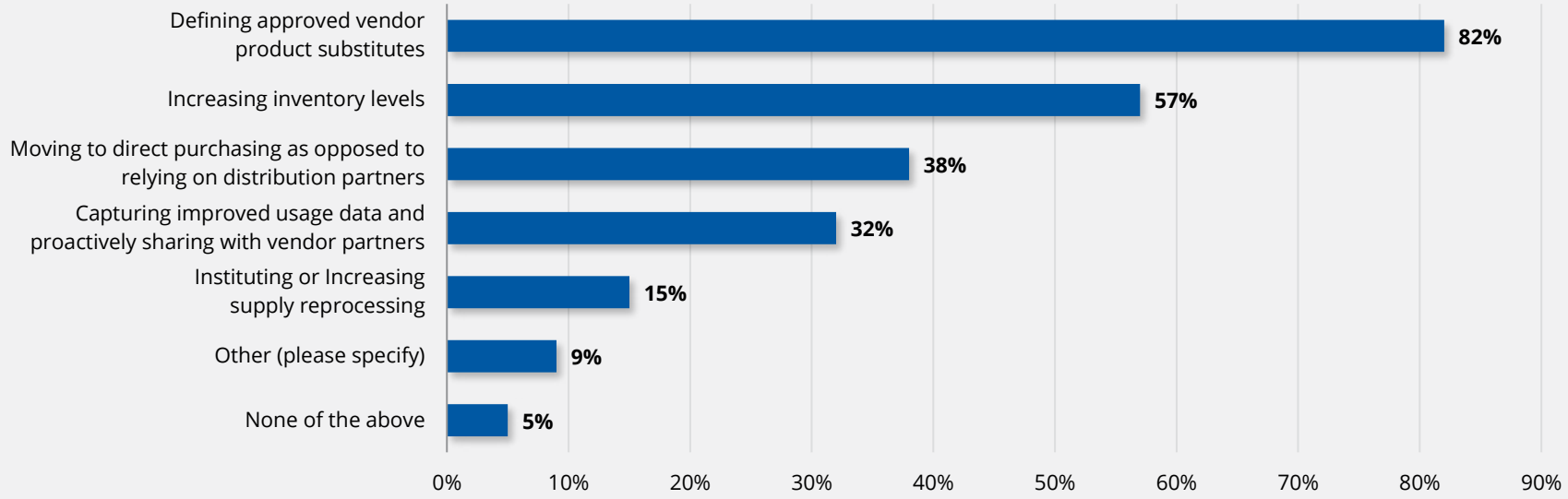
Supplies and Purchased Services (continued)

Similarly, two responses stand out as leading tactics. More than 8 in 10 respondents are defining approved vendor product substitutes, and more than half (57%) have increased inventory levels to mitigate potential supply chain disruptions (Figure 14).

As care delivery increasingly moves outside of the hospital walls, a majority of survey respondents are working to standardize supplies across non-acute settings (63%) and, where possible, align acute and non-acute ordering to secure greater volume discounts (55%). Interviewees note that they have had good success working

> *"Supply chain executives are firefighters by design; they are blamed when it is doesn't work, but their departments are often under-resourced. We need to move supply chain from a transactional to a strategic mindset."*
>
> — Survey Respondent, Local Health System

FIGURE 14: Steps Taken to Mitigate Supply Chain Disruptions



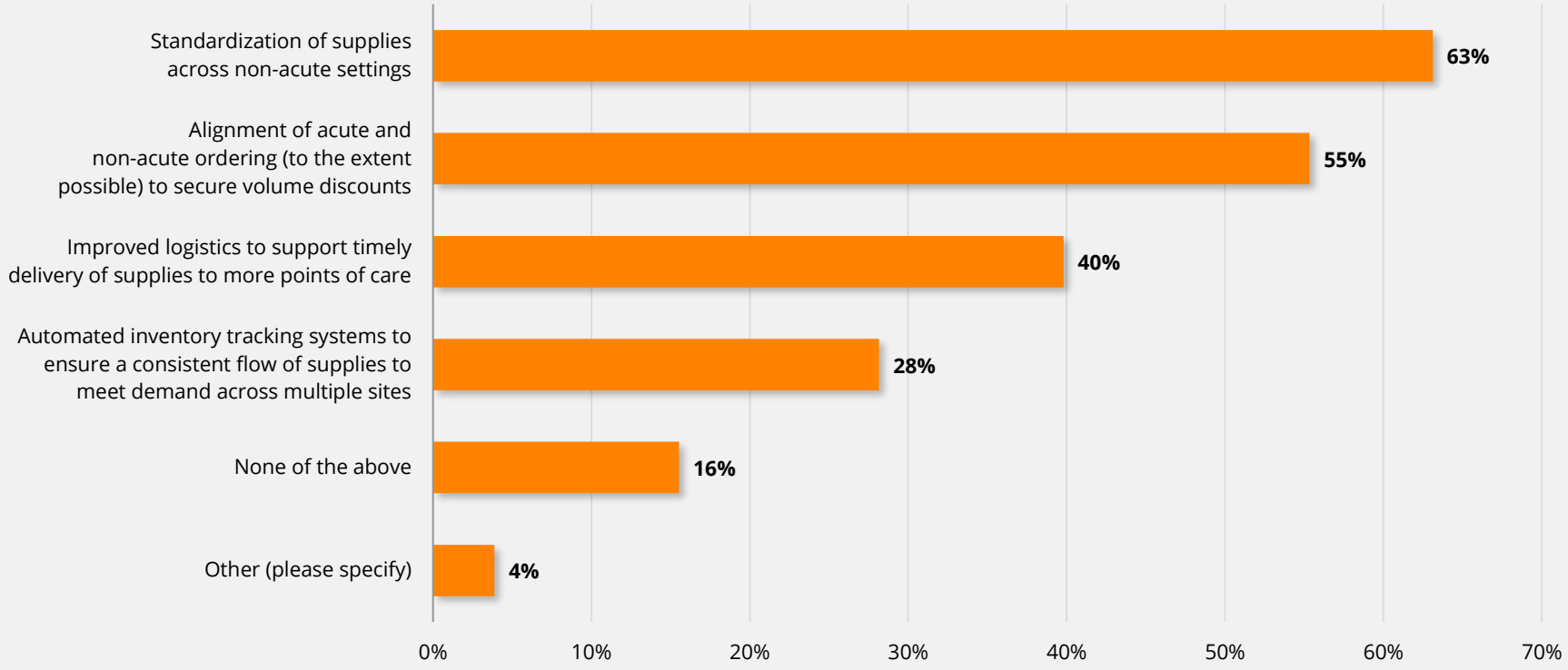
Note: Respondents were asked to choose all that apply.

Supplies and Purchased Services (continued)

with physician leaders on standardization of physician preference items, especially when they have gathered data on cost and patient outcomes that clearly demonstrate the value of one choice over another (Figure 15).

Although many of the supply chain disruptions experienced during the pandemic years appear to have calmed, inflationary pressures are taking a toll on organization's bottom lines. Fifty-five percent of survey respondents report non-labor expense increases of 6%–10% over the

FIGURE 15: Changes to Supply Chain to Adapt to Care Delivery Outside Hospital Walls



Note: Respondents were asked to choose all that apply.

Supplies and Purchased Services (continued)

past year, and almost one-third (29%) have seen non-labor expense increases of 11% or more (Figure 16). On a positive note, more than three-quarters of survey respondents (77%) say that they have been able to effectively leverage relationships with supply chain vendors to enhance supply assuredness and mitigate inflationary pressures (Figure 17).

Action Items: Supplies and Purchased Services

- Focus on key strategic relationships with group purchasing organizations (GPOs), distributors, and wholesalers to improve pricing efficiency and supply consistency.
- Partner with clinicians and providers to standardize products as appropriate for improved pricing.
- Purchased services expenses should be reviewed, as those categories are often ignored.

FIGURE 16: Non-Labor Expense Increases Over the Past Year

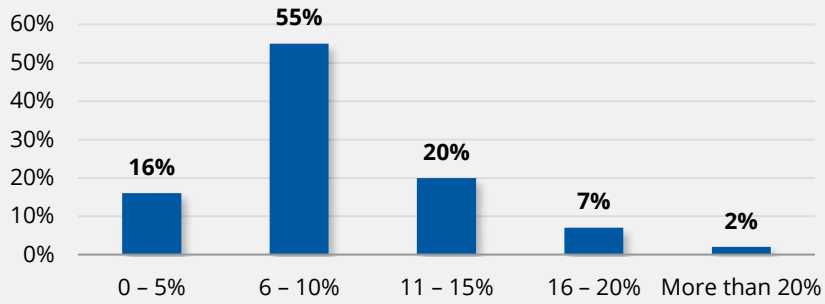
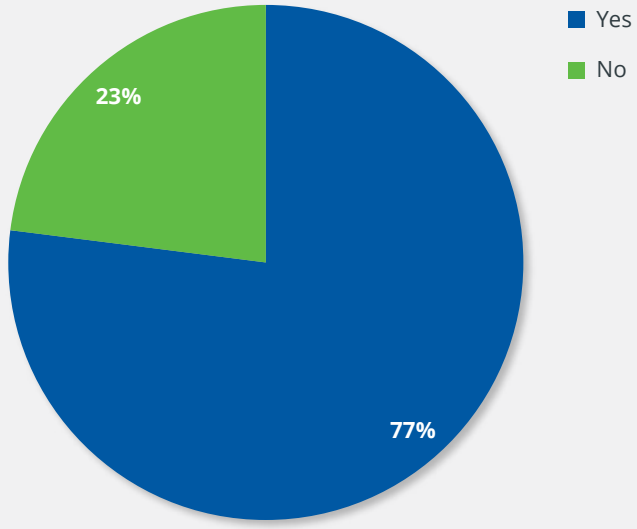


FIGURE 17: Able to Leverage Relationships with Supply Chain Vendors



Physician Enterprise

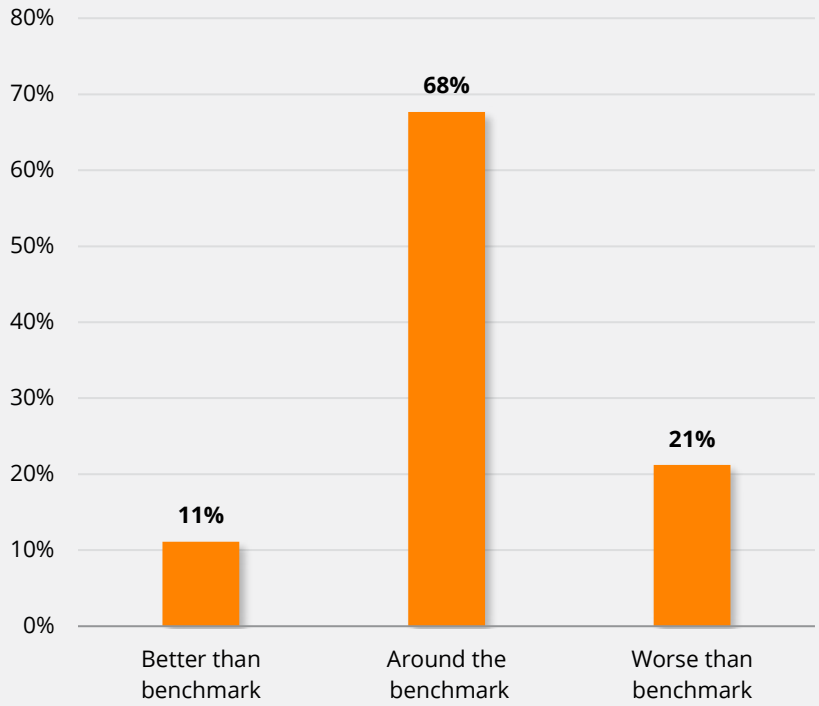
Only one in 10 respondents (11%) report an average subsidiary (or loss) per provider as better than benchmark (Figure 18). According to Kaufman Hall *Physician Flash Report* data, the median subsidy per provider as of Q2 2023 was $224,243 and the median subsidy per physician was $291,764. These figures are clearly unsustainable in the long term.

Joint Ventures

The options for physician practice groups continue to proliferate. National health plans offer both direct employment and physician enablement service options. New healthcare start-ups are providing services to help physician practices succeed in at-risk, value-based-care arrangements. Private equity firms have financed expansion of physician practices at both the national and regional level.

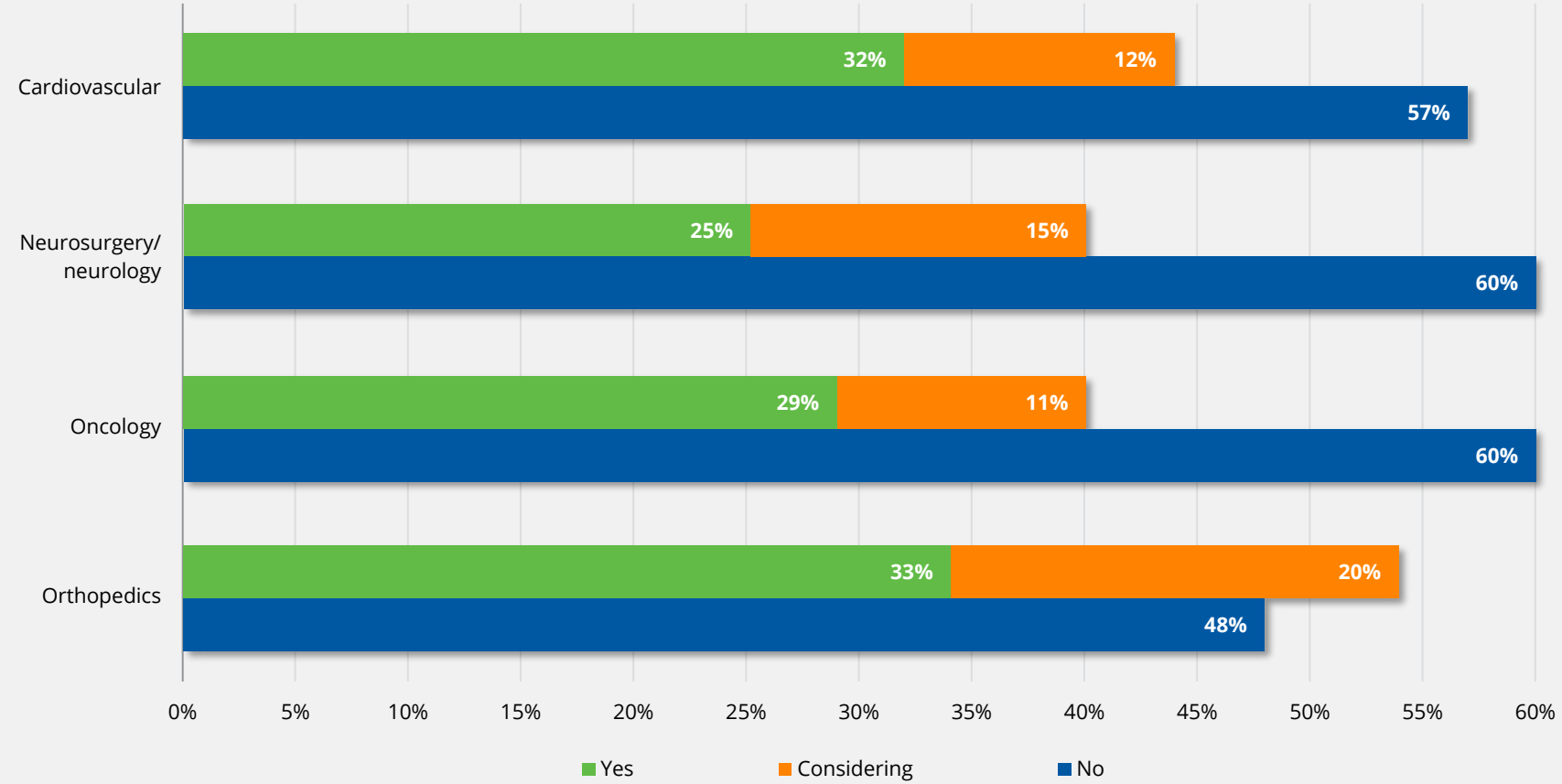
Given the growing competition for physician practices, survey respondents showed a promising interest in joint ventures with key specialties, including cardiovascular, neurosurgery/neurology, oncology, and orthopedics. Approximately one-third of respondents are already in joint ventures with cardiovascular and orthopedic practices and across most specialties, the percentage of respondents who are already in or are considering joint ventures approaches or exceeds 50% (Figure 19).

FIGURE 18: Average Subsidy per Provider



Physician Enterprise *(continued)*

FIGURE 19: Pursuit of Clinical Care Joint Ventures with Physician Groups in Key Specialties



Physician Enterprise (continued)

Access

Despite high provider subsidies, demand for physician services appears to have strongly rebounded. As noted earlier in this report, almost half of the survey respondents report that demand is above pre-pandemic levels at provider clinics, and nearly two-thirds of respondents (63%) say their organization is struggling to meet demand for patient access to its physician enterprise (Figure 20). Those struggles are reflected in an increase in patient concerns or complaints about access to the physician enterprise reported by approximately one-third (32%) of respondents (Figure 21).

> *"Idle capacity in our physician enterprise is the result of inconsistent processes. We are reducing the number of templates and resetting productivity targets. We are losing revenue on patients who are loyal to our system but can't get in."*
>
> — Survey Respondent, Regional Health System

FIGURE 20: Ability to Meet Demand for Patient Access to Physician Enterprise

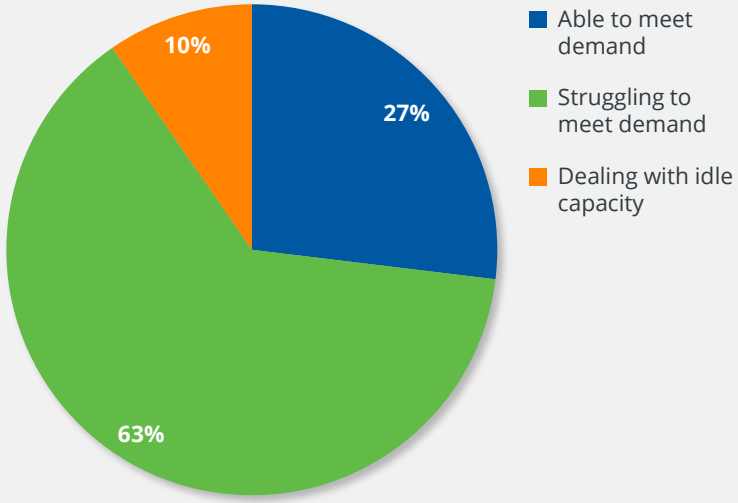
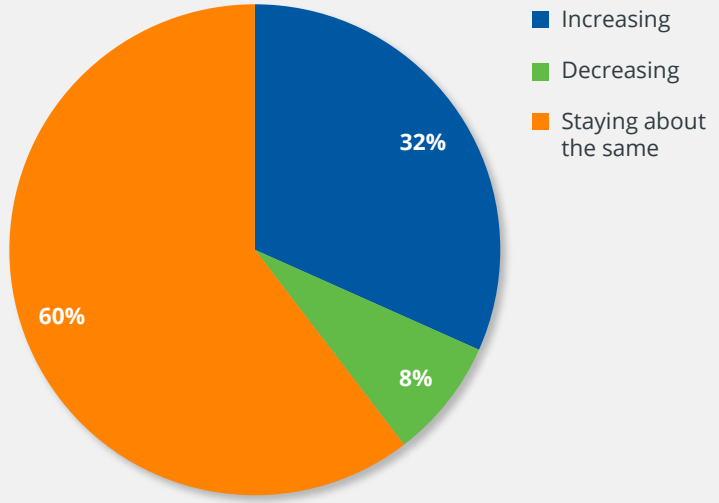


FIGURE 21: Status of Patient Concerns/Complaints About Access to Physician Enterprise



Physician Enterprise *(continued)*

Action Items: Physician Enterprise

- Explore joint ventures with your physicians. In most markets, it is only a matter of when and with whom; do not be surprised if your physicians decide to joint venture with someone else if you are not talking with them.
- Open up physician templates to improve patient access. Your contact center cannot schedule patients if they do not have provider slots available to fill. When was the last time you reviewed templates to ensure schedulable hours are meeting expectations?
- Consider ways to create alternative fast-pass access routes to get patients into your system. For example, many health systems are leveraging advanced practice providers (nurse practitioners and physician assistants) to see patients quickly and get diagnostics ordered for follow-up appointments with specialist physicians, which might take a few weeks to schedule.

Balance Sheet

Bolstering an organization's financial performance is a primary goal of performance improvement initiatives, and the balance sheet benefits to the extent improved performance enables the organization to strengthen its financial reserves, increase its debt capacity, and build headroom for covenants in existing debt obligations. But performance improvement initiatives focused on the balance sheet itself also can drive enhanced financial performance, with opportunities in the organization's debt structure, treasury operations, and real estate portfolio (Figure 22).

Debt Structure

Identifying opportunities within an organization's existing debt structure begins with a catalog of current debt obligations, including par value, maturity and call dates, debt structure, source of covenants (e.g., the master trust indenture or private placement debt), and a summary of covenants across the various sources to identify potential covenant challenges.

FIGURE 22: An Expanded View of Performance Improvement Opportunities

Balance Sheet (continued)

With this catalog in place, organizations can first consider opportunities to refund or restructure existing debt. Modifying debt service requirements or refunding debt with particularly onerous covenants might be a priority; another option is to work with creditors to restructure principal amortizations of debt, especially if the organization is facing financial challenges.

These challenges—and the prospect of breaching debt covenants—were very real for survey respondents over the past year and remain a concern for the year ahead. One in four respondents (24%) say their organization encountered debt covenant challenges during the past 12 months and an even higher percentage (34%) foresee challenges with respect to debt covenants over the next 12 months (Figures 23 and 24). These percentages likely exceed

> ***"We had a near miss on our covenants several years ago. We have made it a priority to make sure that it doesn't happen again. The reserves we have built up have made it easier to get through the past few years."***
>
> — Survey Respondent, Local Health System

FIGURE 23: Organization Encountered Debt Covenant Challenges During the Past 12 Months

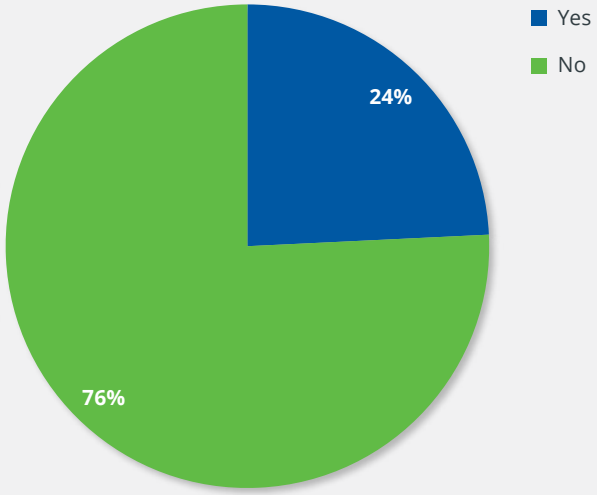
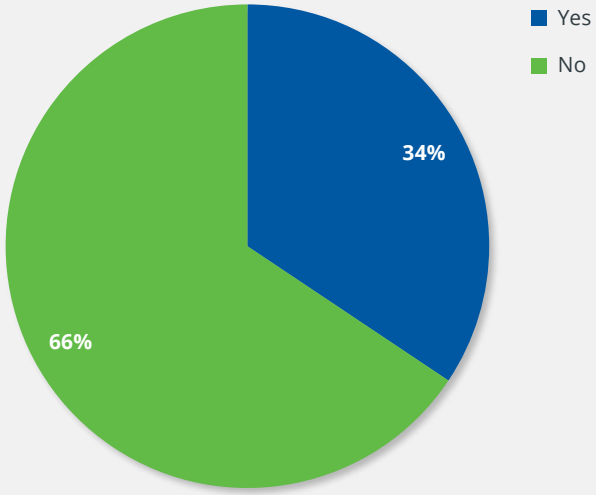


FIGURE 24: Organization Foresees Debt Covenant Challenges Over the Next 12 Months



Balance Sheet (continued)

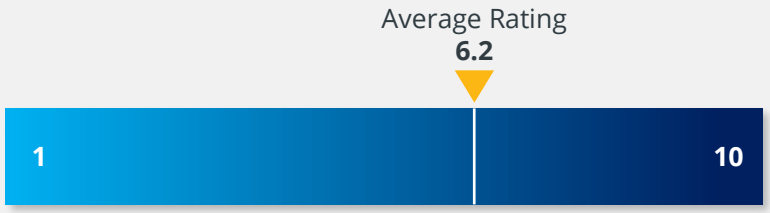
the percentage of organizations that actually breached a covenant: interviews with survey respondents that had indicated a challenge revealed that many feared a breach, but ultimately managed to avoid it. Nonetheless, these high percentages reflect the extent to which organizations continue to struggle with financial performance in the post-Covid environment.

Treasury Operations

When asked to rank the extent to which their organization has maximized the financial and operational value of its treasury function, survey respondents averaged just above 6 out of a possible 10 (Figure 25). This suggests significant opportunity for improvement within treasury operations and aligns with Kaufman Hall's experience that meaningful opportunities can be found in almost all organizations.

Performance improvement opportunities within treasury operations lie within two main areas: financial savings and operational efficiency. Financial savings can be realized, for example, by initiating a banking RFP to reduce fees or optimizing a commercial card program to enhance rebate terms with card issuers. Operational efficiencies can be achieved through streamlining end-to-end workflows or reducing the number of manual processes required. Here again, automation and various software solutions hold particular promise, reducing time for cash positioning and forecasting, automating general ledger entry posting, and decreasing the need for manual adjustments for cash application in the accounts receivable process.

FIGURE 25: Extent to Which Organization Has Maximized Financial and Operational Value of Its Treasury Function

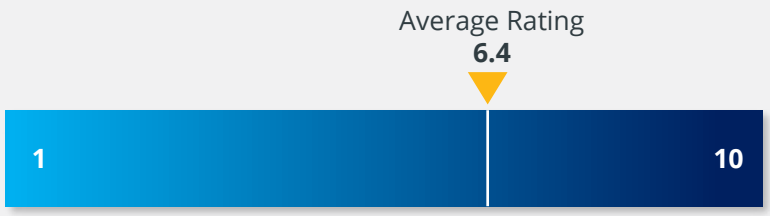


Balance Sheet (continued)

Real Estate Portfolio

Survey respondents also indicated that, on average, their organization has a less than full understanding of its real estate portfolio, with an average ranking of just above 6 on a scale of 10 (Figure 26). Opportunities within the real estate portfolio can be significant: one interviewee noted that his organization had taken advantage of a merger to do a full inventory of the combined real estate portfolio and had uncovered multiple opportunities for consolidation of facilities and monetization of underutilized facilities.

FIGURE 26: Extent to Which Organization Understands Its Real Estate Portfolio



A comprehensive inventory of the organization's real estate portfolio is the first step in optimizing the portfolio's performance. With an inventory in place, organizations can consider opportunities for:

- ***Reducing operating expenses.*** This could include identifying opportunities for consolidating services or functions within a single facility or vacating leases at identified locations to reduce operating costs.
- ***Maximizing space utilization and efficiency.*** Opportunities include relocating services to owned assets or assets leased at favorable rates, or acquiring well-utilized leased assets, with opportunities for potential real estate tax reductions.
- ***Enhancing the balance sheet.*** Monetizing underperforming or underutilized assets can provide access to unrestricted liquidity; alternative ownership structures (e.g., a sale/leaseback with a repurchase option) can help meet short-term capital needs.
- ***Pursuing strategic portfolio opportunities.*** Crafting standardized processes for real estate projects can optimize project value and enhance management control; certain software solutions can enhance portfolio management.

The median ratio of property, plant, and equipment (PPE) to total balance sheet assets for health systems is approximately 30%,[2] and the real estate portfolio comprises a large portion of PPE. There are significant opportunities for most health systems to put the real estate portfolio in service of the organization's financial and strategic goals through a strategic approach to real estate portfolio optimization.

[2] Kaufman Hall analysis of data from Moody's Investors Service, Inc., and Definitive Healthcare Corp. as of fiscal year 2022.

Balance Sheet (continued)

Action Items: Balance Sheet

- Catalog current debt obligations. Use this catalog to identify opportunities for restructuring principal amortizations of debt to relieve financial pressures, or to modify debt service requirements or refund debt with particularly onerous covenants.
- Conduct a current state analysis of your organization's treasury operations. Use this analysis to benchmark against leading industry insights and best practices and identify gaps that represent attainable targets for value generation.
- Complete a comprehensive inventory of your organization's owned and leased real estate assets. Use this inventory to segment the real estate portfolio by asset type and other key characteristics, then use this comprehensive and organized view of the portfolio to make informed decisions on an asset-by-asset basis across the portfolio based on considerations such as quality, location, utilization, and cost of the asset.

Improvement Insights

Interviews with eight of the survey respondents—representing a range of health system sizes and geographies—provided insights on how to optimize the success of performance improvement initiatives and adapt to a rapidly evolving healthcare environment.

Learn from others. An interviewee at a smaller health system noted that small- to medium-sized systems do not always have the resources available to pilot an unproven program. They may not be able to be the first to innovate, but they can learn from the experiences of others. After studying the results of early hospital-at-home programs, they have decided to implement a hybrid program that moves lower acuity patients to a hospital-at-home setting after 72 hours of inpatient care. They learned, for example, that asking a patient who has been admitted for heart failure to opt into a hospital-at-home program immediately can result in adoption rates that can be just 20% of what pro formas indicate are needed to meet the investment in the program. "A patient shows up with heart failure, is told they can go home for treatment, and the patient looks at his spouse and says, um, no thank you." The 72 hours of inpatient care are reassuring for the patient and family members; in the meantime, the health system can accelerate diagnostics and the treatment plan and send someone to the patient's home to ensure that it connected and able to accommodate the patient, who will be supported at home by virtual care and a daily visit from a nurse after discharge to the hospital-at-home program. The major win for the health system comes from improving throughput and increasing bed capacity.

> ***"We have a cost structure to support a revenue structure that doesn't exist anymore."***
>
> **— Survey Respondent, Regional Health System**

Align governance capabilities with health system needs. An interviewee whose organization has been actively pursuing joint ventures with physician groups—often with the support of third-party private equity investors—called out a committee member who is a physician and also runs a private equity firm and invests in technology companies. "He taught us a different way to think." The joint ventures the health system has developed in areas such as imaging, ambulatory surgery, and orthopedics are some of the system's best-performing assets "because the physicians are engaged and aligned."

Look past conventional wisdom. Constrained post-acute-care capacity has been identified as a pain point that has driven up length-of-stay metrics for many health systems. But an interviewee noted that when his organization took a serious look at what was behind patient throughput issues, they discovered that post-acute-care capacity was *an* issue, but not the *predominant* issue. "We discovered that our discharge planning was not as strong as it could be, and that we were not really working the cases with very long lengths of stay.

Improvement Insights (continued)

The number of patient diversions we had last year probably represented $80 million in foregone revenue. These were not because of a lack of capabilities, but because of a lack of bed capacity."

Align incentives to market realities. One interviewee noted that they were losing a lot of recent nursing hires at 24 months, right around the minimum experience requirement for traveling nurse agencies. His health system has an allied health school and offers free tuition support to students who will sign a five-year work commitment. This has resulted in significant wins: "We find that if we can incentivize staff to stay for at least three years, they will stay for seven. The length of the work commitment they sign gives them time to settle into the community and develop relationships that make them far less likely to leave." Many interviewees also noted that they are hiring new nursing graduates directly into specialty units rather than having them first complete a medical-surgical rotation. But placement in a specialty unit typically comes with a pay differential, and organizations must now focus on adjusting those differentials so work on med-surg units is not disincentivized.

"Never be afraid to cannibalize yourself." In Walter Isaacson's biography of Apple cofounder Steve Jobs, Jobs is quoted as saying, "If you don't cannibalize yourself, someone else will." An interviewee who has entered an ambulatory surgery center (ASC) joint venture with an independent multi-specialty physician group in their market cited this quotation as an imperative to be forward-thinking in strategy. The health system was well aware of growing competition for physician practices and ASC joint venture opportunities and wanted to move first before others entered the market. The system has also done an analysis of site-neutral revenue at risk in areas such as gastrointestinal, orthopedics, and medical imaging. While they will keep fighting the battle to justify payment differentials for hospital-based services, they also understand they need to be aware and ready to shift if that battle is lost.

Accelerate transformation. "We have a cost structure to support a revenue structure that doesn't exist anymore. We need to be aggressive in getting at overhead and management layers, realizing the benefits of integration, spreading best practices, and looking at shared service opportunities," one interviewee noted. These changes can be difficult and disruptive, and the longer they are spread out, the more morale can suffer. "Financial imperatives aside, you cannot subject an organization to these changes year after year."

About the Report

This year's report was based on responses from 106 hospitals and health system leaders from across the country. Most respondents are in executive leadership (62%) or finance (12%) roles; clinical management, operations, strategy, and quality functions are also represented. We also interviewed eight respondents, representing rural, suburban, urban, and academic health systems of varying sizes and geographies. Interviewees' insights are distributed throughout the report. Virtually all the survey respondents (98%) are in single hospitals or hospital-based systems; this includes the 4% of respondents who indicated "other" but preferred to identify their organization as an integrated delivery network, for example, or noted that their organization also owns a health plan. The remaining respondents (2%) are in medical groups (Figure 27). All regions of the country are represented, including the Northeast (49%), South (10%), Midwest/ Great Plains (26%), and West (15%). Respondent organizations serve urban (28%), suburban (32%), and rural (40%) populations (Figure 28).

FIGURE 27: Size and Type of Respondent Organizations

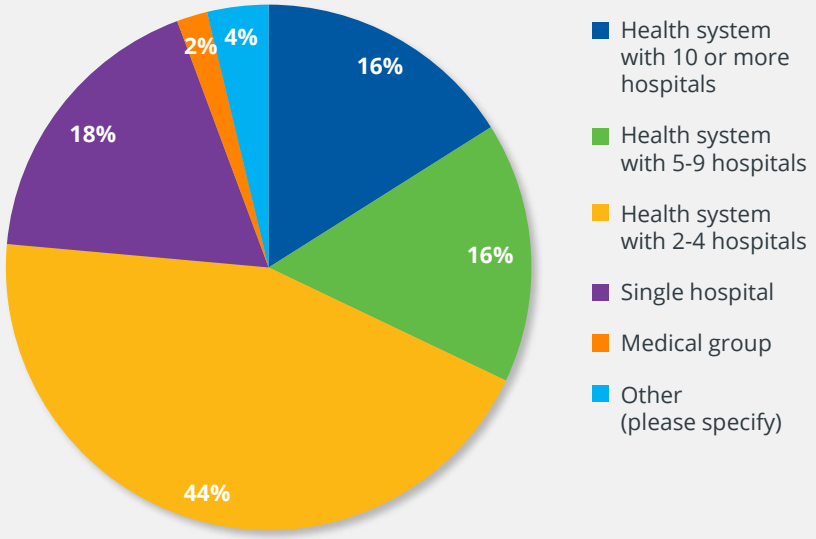
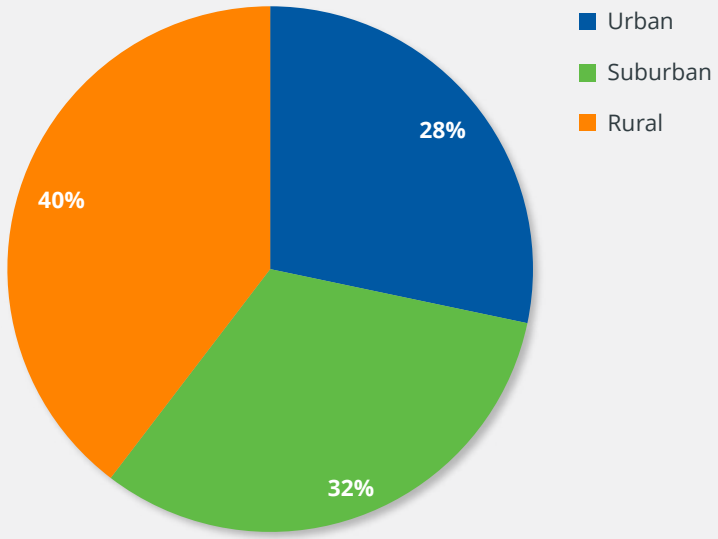


FIGURE 28: Respondent Organizations by Market



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