

Hospital Operating Efficiency Under Healthcare Reform

For the past several years, the challenges surrounding efficiency have come to the forefront in the discussion of how to improve healthcare delivery. Over a decade ago, McKinsey & Company released a report detailing the failings of hospital operations since the 1980's and providing suggestions to combat the identified concerns.¹ A more recent report, released in 2009 by the Institute for Healthcare Improvement (IHI), similarly discussed opportunities and strategies to improve quality and efficiency in order to reduce cost and optimize care.² However, similar to identified trends regarding healthcare quality, the concerns related to the operational efficiency, or inefficiency, of hospitals have continued to be issues of paramount importance during the transition from a fee-for-service to a pay-for-performance reimbursement program.

In an era of healthcare delivery where compensation and the bottom line directly (or indirectly) drive referrals; interventions; personnel investment; and, patient satisfaction, associating executive compensation with quality metrics and patient outcomes, as discussed in a Health Capital Topics Article from November 2013³, may become necessary to drive healthcare toward streamlined and operationally efficient processes that other industries have endorsed for decades. The McKinsey publication suggests analyzing bottlenecks in patient flow and increasing the use of information technology (IT) for patient tracking and bed availability to allow increased inpatient throughput.⁴ These recommendations are echoed by other industry stakeholders, using strategies such as enlisting executive support and organizational culture changes toward improving patient flow and providing metrics to measure progress.⁵ Although numerous reports identify benefits associated with increased utilization of IT resources, a study published in a 2009 edition of the American Journal of Medicine found "...no evidence that computerization...lowered costs or streamlined administration."⁶

Existing problems related to operating efficiencies will only become more evident as an estimated 32 million additional consumers enter the healthcare system under recent healthcare reform measures. A 2011 Health Affairs article estimates that hospitals could optimize efficiency and increase average occupancy from an average of 65% to 80% or 90% in lieu of adding

additional beds, at a capital price tag of \$1 million per bed, to accommodate the influx of patients.⁷ In addition, under healthcare reform's new Value Based Purchasing (VBP) program, as of FY 2015, acute care hospitals will risk 1.5% of Diagnosis-Related Group (DRG) payments based on their performance under the program, 20% of which is based on efficiency, i.e., Medicare spending per beneficiary.⁸

Improvements in operational efficiency have the potential to: (1) benefit facilities' bottom line; (2) decrease the frustration of healthcare providers; and, (3) reduce adverse impact on patient satisfaction and outcomes. In addition, more effective patient throughput will allow the healthcare system to provide care for more consumers, expanding access to care and increasing insured clients. Many of these arguments for increased efficiency are not new, and will likely remain at the forefront of stakeholders' minds as value-based purchasing and cost cutting measures abound in this new era of healthcare reform.

- 1 "Hospitals Get Serious About Operations", by Paul D. Mango and Louis A. Shapiro, McKinsey & Company, The McKinsey Quarterly, 2001, No. 2
- 2 "Increasing Efficiency and Enhancing Value in Health Care: Ways to Achieve Savings in Operating Costs per Year", by Martin et al., Institute for Healthcare Improvement, 2009
- 3 "Does CEO Compensation at Non-Profit Hospitals Need to be Tied to Quality Metrics?", by Health Capital Consultants, Health Capital Topics, Vol. 6, Issue 11
- 4 *Ibid*, by Paul D. Mango and Louis A. Shapiro, 2001, pp. 78-85
- 5 "Improving Hospital Operational Efficiency Must Include Patient Flow Improvements", by Lindsey Dunn, Becker's Hospital Review, September 6, 2011, <http://www.beckershospitalreview.com/hospital-management-administration/improving-hospital-operational-efficiency-must-include-patient-flow-improvements.html> (Accessed 12/8/13)
- 6 "Hospital Computing and the Costs and Quality of Care: A National Study", by Himmelstein et al., The American Journal of Medicine, 2010, Vol. 123, No. 1, p. 44
- 7 "More Patients, Less Payment: Increasing Hospital Efficiency in the Aftermath of Health Reform", by Eugene Litvak and Maureen Bisognano, Health Affairs, 2011, Vol. 30, No. 1, pp. 77-78
- 8 "Hospital Value-Based Purchasing Program", by Centers for Medicare & Medicaid Department of Health and Human Services, March 2013, pp. 4, 6, 8



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Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as Chief Executive Officer of **HEALTH CAPITAL CONSULTANTS (HCC)**, a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

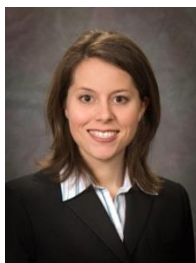
Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: *“Accountable Care Organizations: Value Metrics and Capital Formation”* [2013 - Taylor & Francis, a division of CRC Press], *“The Adviser’s Guide to Healthcare”* – Vols. I, II & III [2010 – AICPA], and *“The U.S. Healthcare Certificate of Need Sourcebook”* [2005 - Beard Books]. His most recent book, entitled *“Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services”* will be published by John Wiley & Sons in the Fall of 2013.

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious *“Shannon Pratt Award in Business Valuation”* conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS).



Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives, and serves as President of the St. Louis Chapter of the American Society of Appraisers (ASA). He has co-authored *“Research and Financial Benchmarking in the Healthcare Industry”* (STP Financial Management) and *“Healthcare Industry Research and its Application in Financial Consulting”* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.



Anne P. Sharamitaro, Esq., is the Executive Vice President & General Counsel of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. Ms. Sharamitaro has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in *“Healthcare Organizations: Financial Management Strategies,”* published in 2008.