

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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