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Leadership and talent
Enabling radical cost reduction through effective organizational alignment

Hospital systems today are actively engaged in a race to meet the challenges of healthcare reform. Many have labored to create the 'right' strategy and plan to pave the way for Radical Cost Reduction (RCR) in anticipation of the need to operate at Medicare reimbursement rates to remain viable. The resulting future vision for these hospital systems articulates performance goals in the top quartile *or even top decile* in terms of cost.[1] Obviously, not every organization will achieve such lofty performance goals – in fact, some will not. There will be winners and losers. Given the high stakes and the high expectations factored in with already intense competition and a rapidly changing landscape, what might be the reason(s) that some succeed while others fail?

Healthcare isn't the only industry where the world of thriving businesses has been turned upside down by cost pressures. We've heard stories of Media & Entertainment giants that have been brought to their knees by rapid innovations in content development and delivery. For example, streaming mobile on-demand content has displaced and is quickly replacing more traditional content delivery mechanisms, which are typically heavy on costs such as bricks-and-mortar and human capital.

One traditional Media & Entertainment company experienced rapid decline a few years ago. This is a cautionary tale worth repeating. Important to highlight is the root cause of this defeat – a profound lack of stakeholder engagement and alignment, rather than poor corporate strategy and failure to innovate. The lesson learned is a failure of the company's leadership to engage and align valuable stakeholders (and the rest of the organization) to a singular mission: ***to regain competitiveness, we must stand together to make changes… now.*** Rather than align and organize for change to address the company's decline and restore competitiveness, stakeholders tangled themselves in political infighting ultimately leading to poor corporate strategy and a failure to innovate.

[1] http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_lshc_RadicalCostReduction_101012.pdf

From this vantage point, hospital systems and Media & Entertainment companies have much in common: they're both dealing with the need to radically change their cost structures and delivery models in order to meet the challenges of the changing business environment. In the face of external pressure, the thriving businesses in both industries are those that focus by aligning around and embracing a constant state of change as the new normal.

So, how can hospital executives meet the challenge posed by Medicare Rates? One differentiator will likely be the way in which these organizations engage their physicians, managers, and employees to initiate and ultimately achieve transformative change. The winners will devote considerable time and resources to weave stakeholder engagement and alignment efforts with operational changes in order to create a compelling story and re-form a culture that is supportive of cost reduction objectives; a culture that is comfortable with, supports, and sustains change to remain competitive.

Our previous paper on Radical Cost Reduction outlined four levers for achieving Radical Cost Reduction:

1. Take a strategic, not tactical, approach to the overall cost reduction effort
2. Build executive and organizational alignment around specific change efforts from the start
3. Use IT investment as a catalyst
4. Embrace innovation as the new standard

Below, we expand on the second lever and articulate its importance in executing the four focus areas critical to achieving RCR. Beyond the obvious importance of the workforce (direct labor costs are typically well over 50% of a hospital's total costs), physician, manager and employee acceptance and support of proposed changes to achieve cost-savings targets is essential to success. Failure to meaningfully engage the workforce in transformative change may have a detrimental effect on quality of care, outcomes, patient experience, and ultimately revenue as well as cost. Such a failure may derail achievement of performance goals, or worse.

The first step to building organizational alignment is to select leadership to steer the organization through the change – usually referred to as executive sponsors. Once selected, these leaders have their work cut out for them, for they not only need to get other executives on board, but also begin the process of engaging the broader organization. How should an executive sponsor go about this daunting task?

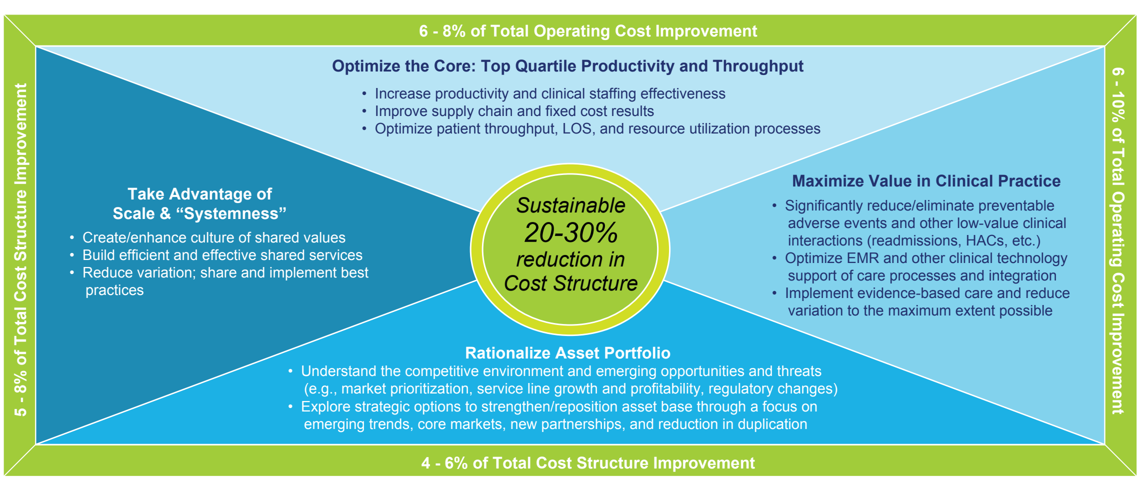
One size does not fit all

One element to effective engagement is to understand the right approach to take with each stakeholder group. Hospital systems have unique groups with unique needs, and careful consideration should be given to get each one on board.

Physicians

Physician engagement and physician alignment are popular buzzwords, and for good reason. The challenges of engaging physicians in change are numerous and complex. Physicians are not typical employees, and in many cases are not employees at all. Industry surveys reveal that many are confused and worried about the future of their profession and their livelihoods in light of health care reform and

Four Focus Areas for Achieving RCR



other changes.[2] Incentives pose another issue – physicians have historically been paid on volume. There is often little personal financial incentive to make decisions that also benefit the hospitals in which they practice. For instance, an experienced orthopedic surgeon usually has no financial incentive to switch to a lower cost supplier in order to benefit the health system – for surgeons, the switch means lower productivity due to the time investment to learn about the alternative product. So what DOES work?

- **Education** – It might be surprising that some of those responsible for caring for our health need education on the state of health care itself – for instance, how the implementation of the Affordable Care Act will ultimately impact their professions and the places where they practice.[3] Put yourselves in their shoes – 70 or 80+ hour weeks, learning new Electronic Health Record technology, training residents, dealing with increased patient workload, and trying to stay current on leading practices. Simple education on how broader industry changes are impacting the hospitals in which they practice can go a long way for physicians and their colleagues.
- **A seat at the table** – Physicians should be included in decision-making processes. If physicians understand the finite resources available and have a true say in the allocation of those resources, they are more likely to support favorable changes. Whether this takes the form of a formal co-management structure, or simply involvement in governance processes and committees, the concept remains the same.
- **Data** – The conversation needs to shift from one of cost to one of quality and clinical effectiveness. Expanding on our example, if we want a surgeon to switch to a different supplier, hard evidence is needed to show that the switch leads to improved – or at a very minimum – equivalent outcomes. This may also be achieved if individual physician data is presented back in the form of dashboards, which may be measured, tracked, and reported at the individual physician level such as quality metrics, block scheduling statistics, and supply spend. Physicians are interested in how they measure against their peers – thus, it is important to recognize those who are doing well in addition to providing support and coaching to those with room for improvement.
- **Financial incentives** – While often complex to implement for regulatory reasons, some degree of physician financial alignment is an important step, either at the macro- or micro-level. This could take the form of gain-sharing for savings achieved from an individual initiative (such as our example above regarding supply chain spend), or more broadly in the form of achieving stated goals for the overall enterprise.

2 http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_chs_2013SurveyofUSPhysicians_031813.pdf

3 http://www.jacksoncoker.com/cmscontent/Emails/Surveys/ACA/images/Physician-Survey-Obamacare.pdf

Front-line managers

From nursing to facilities, managers are often the group hit hardest by change, all the while trying to manage their departments and do more with less. At the same time, they are a critical group for engaging employees – if a front-line manager does not support change, in both words and actions, it's unlikely the manager's employees will. With RCR, managers need to have a clear vision of the required change, its priority among alternatives, an understanding of why it is required, the tie to the organization's mission, and what their role may be in the process. Often managers understand the need for change and have every intention of supporting it, but are not given the clear direction or tools to do so. What are some tactics that may work?

- **Super Users for RCR** – Since the early days of ERP, organizations quickly learned that engaging respected and high-performing individuals in the project is a critical enabler to achieving buy-in, educating others, and minimizing the productivity dip associated with new system implementations. The same concepts are applied to RCR. Organizations have a subset of very talented managers, and physicians, who are well respected by their peers, their direct reports, and others in the organization. Engaging these leaders early and often is key to sustainable change. These managers should be brought together regularly to provide feedback on decisions and filter information to the executive sponsor(s) on the pulse of the organization and what they hear from employees. They should also be prepared through talking points and other tools in order to effectively address questions and concerns that they are hearing.
- **Engage HR as a partner** – There is a reason that the term "Business Partner" is used more frequently these days, rather than HR Generalist. HR should be actively engaged in the change and properly prepared to provide guidance for both managers and employees. When employees and managers hear the term "cost reduction" they naturally begin wondering about job security, and HR is one of the first places they turn to with questions.
- **Role in the future** – Managers should embrace the professional opportunity to be a change leader. They are in an ideal position to create the end vision for their departments and their individual roles. Opportunities exist for managers to leverage their skills and breadth of impact to set the tone with their employees and departments. If managers avoid addressing the future state, then they run the risk of faltering when the day finally arrives; rather, managers ought to serve as both catalysts for and sustainers of change.

Nurses and other employees

Non-managerial employees within the organization may have the most to fear, for typically, they are recipients of the changes and are not privy to the decision makers' informative vantage point. Nonetheless, nurses and other hospital system employees interact more frequently with patients, so their perception and implementation of the changes impact patient care significantly. As opposed to employees feeling as though change is "happening to them," they too should take ownership of the change. Critical levers exist to engage staff in RCR, such as employee forums, retention programs for high performers, and shared governance, which ultimately make positive change a reality. Effective initiatives require RCR leaders to act proactively to invest in staff, manage the change culture, and manage concerns around job stability.

- **Email is a tool, not a solution** – All too often, organizations heavily utilize email as the primary communication vehicle. In a provider environment, this is particularly risky as some employees may not have access to computers as part of their daily jobs. Even for those who do, email is simply one communication vehicle and does not take the place of an integrated approach of one-on-ones with managers and leaders, particularly for sensitive topics or controversial changes. Other creative ideas include posters, badge cards, or even positioning hospital leaders to pass out information and chat with employees during leader rounding or even as they enter/leave the employee parking area.

- **Integrate and coordinate** – Organizations should take a broad and integrated approach to managing RCR-related change and its associated HR implications. A centralized Project Management Office (PMO) should be responsible for the coordination of change management efforts and talent-related impacts (e.g., stakeholder engagement, communications, organization/job design, severance and outplacement). Again, HR needs to be a partner in this process. The goal is not only to prepare the organization for a particular change, but to make it sustainable and build the internal capability to undertake future changes efforts effectively.
- **The Culture Question** – For some organizations, RCR initiatives present a perceived culture of crisis. Difficult questions arise. A common issue for a system with a reputation for caring for employees face is how to embark on a path to radical cost reduction while still having compassion for employees and their families. The first step is to maintain a transparent environment and to tie, in both actions and words, the proposed changes to the mission.

One not-for-profit health system evaluated how it could provide more affordable care while remaining true to its faith-based mission and values. The health system recognized the need to undertake cost reduction and transformation initiatives to achieve its mission of serving the community. It struggled, however, with the implications the initiatives had on the workforce, many of which seemingly conflicted with its values. For example, it became apparent that some reductions in force were likely needed. Rather than compromising its values or transformation objectives, the system recognized the importance of its workforce in enabling the change and chose to invest in helping employees develop the skills needed to fill the *positions of the future*. To do this, they built a talent planning center to:

- Proactively analyze the skills and abilities required of its employees in the future
- Partner with employees to build competencies that allow them to work effectively in the future health care model
- Anticipate which roles may change as result of their transformation and cost reduction efforts, and assist impacted employees in using talents in new ways by transitioning to different roles – inside the health system when possible, or outside when not possible

Although the system was actively involved in a cost reduction initiative, this investment in employees not only allowed it to remain true to its mission and values, but also to achieve both tangible and intangible value. It decreased severance costs by placing impacted employees internally (this also decreased time to fill open positions). Perhaps more importantly, it demonstrated to employees that the organization cared for them during the transformation, which maintained workforce productivity, morale, and engagement.

Conclusion

Governmental reform, lower reimbursements, and rising costs are driving hospital systems to drastically shift their operating approach to remain financially viable. RCR can provide a viable short- and long-term solution. But to achieve a sustainable 20-30% reduction in cost structure, purposeful, strategic organizational change is required, which impacts leaders, employees and physicians. Leadership must be ready to compellingly articulate change efforts. Physicians' voices need to be heard. Front-line managers should be given the tools to lead change among employees. A transparent, communicative environment is critical for nurse and employee satisfaction and retention. Effective employee stakeholder and organizational alignment initiatives play an important role in the journey to a tighter, more cost effective operating environment. A thoughtful and deliberate approach to leading and managing the people-related aspects of organizational change during radical cost reduction can pave the way for short- and long-term success in an industry where the ability to change is directly correlated to future success.

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