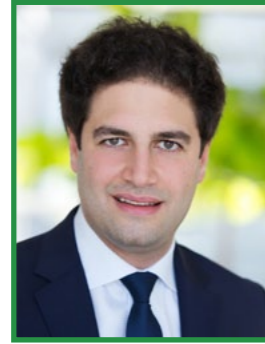


# The Value Based Hospital



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Health care providers all over the world face an extraordinary combination of pressures. Despite decades of cost containment and other operational-improvement initiatives, costs continue to rise, putting unrelenting pressure on hospital budgets. The tight management of budgets and clinical processes is further complicating already complex organizations, leaving staff demoralized and disengaged. At the same time, markets are becoming more competitive.

In response to these pressures, a few pioneering organizations are developing a new operating model that we call the value-based hospital. These providers are taking a fundamentally different approach to continuous improvement by monitoring the health outcomes of specific patient groups and understanding resource requirements and costs in the context of how those outcomes are achieved along the clinical pathway. Among the leading organizations that have embraced this approach are Kaiser Permanente and Cleveland Clinic in the U.S., Martini-Klinik and Schön Klinik in Germany, and Terveystalo, the largest private health-care provider in Finland.

The vast majority of hospitals, however, have yet to embark on this journey. Despite years of quality management initiatives, hospitals are decades behind most other industries.

We believe that the value-based hospital is more than yet another improvement initiative. Relative to past efforts, it is a far more effective way of delivering health care and running a provider organization—one that puts patients and their outcomes at the center of a hospital's operations; that relies on the engagement, leadership, and cooperation of the hospital's clinical community; and that makes possible a more constructive interaction between hospital management and clinicians as they take joint responsibility for the delivery of cost-effective, quality care.

The Boston Consulting Group has been working with the pioneers to understand the key success factors in the value-based hospital. What's more, our work on the ground supporting a growing number of hospitals in their efforts to adopt this new operating model demonstrates that it is possible for any hospital, no matter what its starting point or regulatory environment, to move in the direction of value-based, continuous improvement quickly and to see positive results early. A hospital does not need to first have all the data and systems in place to see results. Simply bringing together the right people, who are committed to improving patient outcomes, in a structured process can lead to significant improvements. In our client work, we have seen organizations achieve productivity and other improvements of approximately 30 percent in just three months.

## The Limits of the Traditional Hospital Operating Model

Every hospital wants to deliver quality care in a cost-effective fashion. But the way most hospitals are organized today makes that goal very difficult—and, in many cases, nearly impossible—to achieve. Three organizational characteristics stand in the way of sustainable continuous improvement.

**Functional Organization.** Departments are organized by medical specialty: cardiology, thoracic surgery, rheumatology, radiology, and so on. In many hospitals, resources that could be shared, such as emergency

care, intensive care are likewise organized into their own specialty units. Despite the high degree of formal interaction among departments through referrals for diagnostics or treatment, each unit is measured on its own budget and its own organizationally distinct KPIs. What's more, incentives are typically not shared across departments or care units.

But that comes with a major downside: the relative independence of separate specialized units makes it extremely difficult to optimize the full care pathway and manage costs in an integrated fashion. Although individual-unit performance and costs can be tracked, no one unit typically has responsibility for the health outcomes of a given group of patients. Handoffs between units often require duplicating data and work.

**Narrow Performance Metrics.** The problems of the functional structure are exacerbated by the type of performance metrics that hospitals typically collect. In our experience, most hospitals track financial metrics (by department, usually in terms of whether a given unit is on budget) and process metrics (with an emphasis on waiting times and the productivity of individual units). Some measure “quality,” but when they do, quality is often defined as compliance with treatment guidelines (in effect, process efficiency) or assessed using surveys about the patient experience. But those approaches emphasize efficient throughput or subjective experience, not the actual health outcomes delivered to patients. The fact that costs for a given condition are distributed across many different departments makes it extremely difficult to get a clear picture of the whole and, therefore, to act on costs, because nobody “owns” or can manage the trade-offs between cost and quality.

**The Management-Clinician Divide.** A highly fragmented organization and metrics that do not directly address the key purpose of the organization—improving the health and well-being of patients—tend to create a disconnect between management and staff. Administrators of individual units focus on maximizing the efficiency of their own units through their control over the budget and staff schedules. Meanwhile, clinicians aspire to achieve the best clinical outcome for their individual patients but have little control over the budget and schedules and little useful data about patient outcomes and the specific costs that do—and don't—make a difference in delivering those

outcomes.

This behavior in hospitals is not the result of some inherent unwillingness to cooperate. Rather, it is a logical consequence of the functional organization. On the one hand, hospital administrators often feel powerless to influence clinicians, who are on the front line of care. On the other hand, highly committed clinicians often feel not only that the metrics and objectives the system imposes on them have little to do with patient care but also that they lack the information and tools needed to really make a difference in hospital performance.

## The Advantages of the Value-Based Operating Model

The value-based operating model is fundamentally different. Its starting point is a commitment to collect and share data on the actual health outcomes.

Systematically tracking outcomes is essential for two primary reasons. First, delivering quality health outcomes is the *raison d'être* of any provider organization. Quality health outcomes are what patients want from their providers and what payers ultimately should fund. Second, and perhaps even more important, not until an organization knows what kind of outcomes it is delivering can it begin to understand its true performance and what kind of value it is providing.

Focusing on outcomes also has a third big advantage. It provides both administrators and clinicians with a whole new way to think about costs: whether the costs incurred actually contribute to outcomes.

**Costs That Matter to Patients.** By definition, health outcomes are specific to a given disease, medical condition, or procedure. The outcomes that matter vary by patient group. Similarly, the costs that matter in the value-based hospital are the costs per patient to achieve the target outcomes for a given disease or condition.

**Therefore, the right way to track costs is not so much by each specialized unit but by the activities undertaken and resources used for a given patient group across the entire care-delivery process. Once an organization has developed a system for tracking the cost per patient in a particular group of patients suffering from the same disease or condition or with a similar medical profile, it is in a position to identify which particular costs drive**

**quality outcomes and which do not.**

**The Power of Clinician Engagement.** Because clinicians care about delivering high-quality outcomes, focusing on outcomes is a powerful mechanism for engaging clinicians. Indeed, without genuine clinician engagement over an extended period of time, no change is likely to be sustainable.

Clinicians are the key influencers in any hospital. The clinical staff is closest to the patient and knows how things are really done. Indeed, without clinicians' commitment to a change effort, it is unlikely to get off the ground or prove sustainable over time. Most important, only by engaging the clinical community—up and down the hierarchy and across the entire care-delivery chain for a given disease or condition—can a hospital begin to break down the organizational barriers between departments in order to truly collaborate and share knowledge and ideas for improvement.

The combination of new visibility about outcomes and costs per patient group with across-the-board engagement on the part of clinicians creates the context for a new

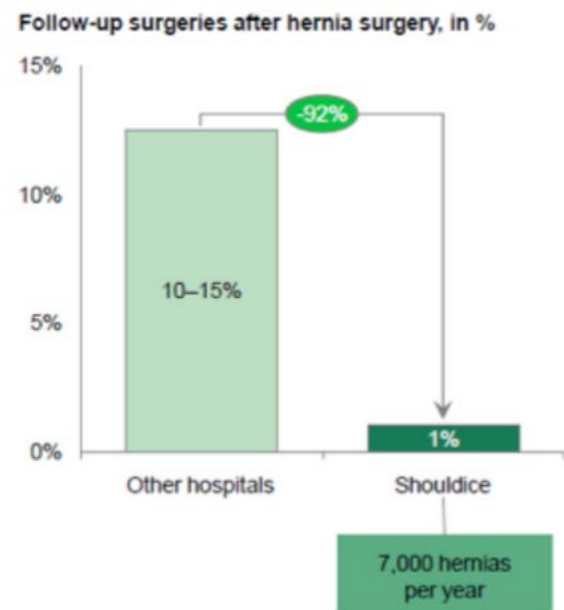
kind of behavioral dynamics in the hospital. New health-outcomes data and cost data that together provide an integrated perspective across the entire care-delivery value chain. These data also make it possible to align the clinical goal of delivering high-quality care with the managerial goal of delivering that care as cost-effectively as possible. Put simply, clinicians in this context find that it is in their interest to cooperate with one another and with management in a genuine partnership in which each takes joint responsibility for providing quality outcomes in a cost-effective fashion.

Canada's Shouldice Hospital: According to BCG's analysis, the hospital performs 7,000 hernia repairs — for just 1,000 dollars each—per year and has a follow-up surgery rate of just 1%. At other hospitals across Canada, hernia repairs have both a much higher cost (2,000-3,000 dollars) and a higher rate of follow-up surgeries (10-15%). This means that these other hospitals perform 92% more follow-up hernia surgeries than Shouldice Hospital despite the initial surgery costing double or triple the amount. Shouldice Hospital's formula for success is simple: better health outcomes and greater health-care value.

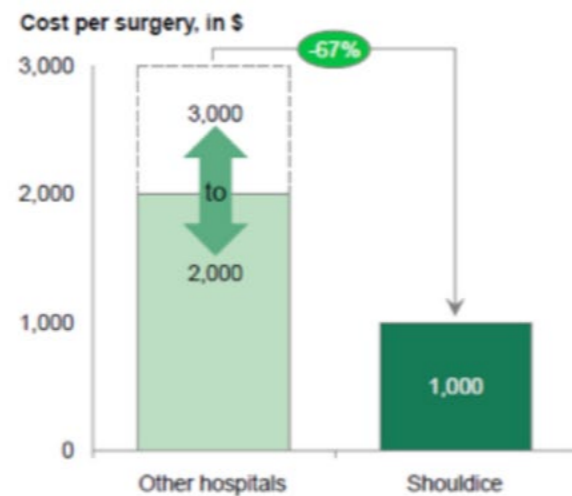
**High number of cases allows better resource efficiency**

Shouldice Hospital, Canada

Shouldice Hospital in Canada with only 1% follow-up surgeries for 7,000 hernias p.a. ...



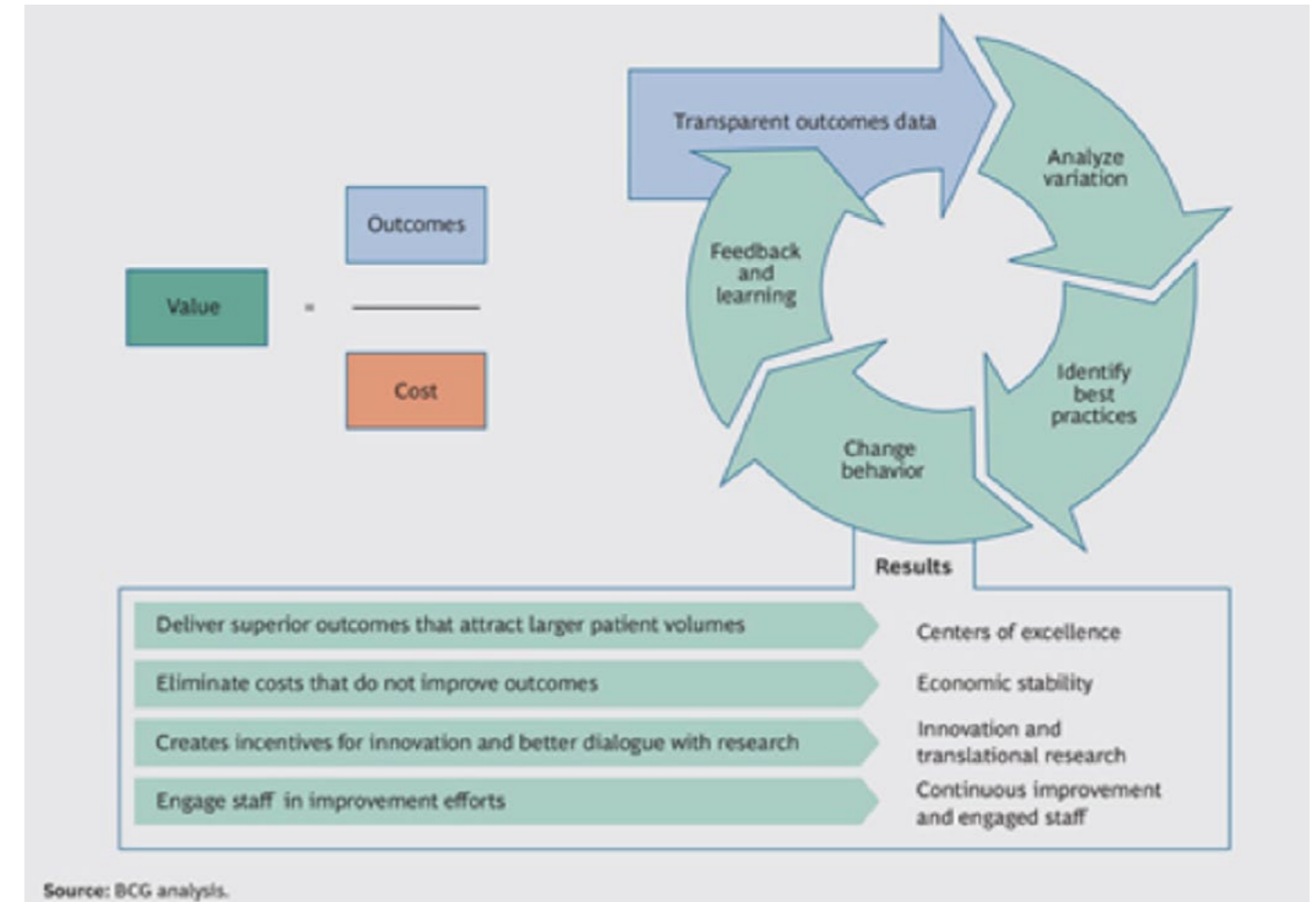
... with considerably lower costs



**Developing Sustainable Competitive Differentiation.**

Once a hospital has the right patient-focused metrics in place and an engaged clinical staff operating on the basis of effective processes for care redesign, it is also in a position to identify its areas of strength and leverage those

strengths to establish its competitive differentiation in the rapidly changing health-care marketplace. By “competing on outcomes,” a hospital can attract more patients, generate better economics, and develop a sustainable response to the trends that are transforming health care.



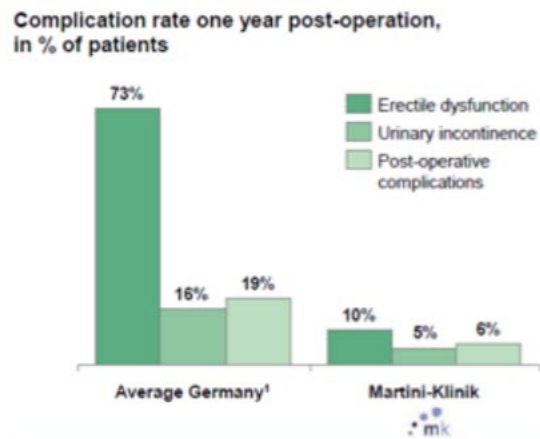
In some cases, a provider organization will focus on becoming an international leader in treating a specific condition that often requires highly specialized care—for instance, prostate cancer. Providers that use this strategy leverage their depth of experience in clinical-practice R&D, excel at systematically driving outcomes improvements that matter for patient groups, and increase volume by attracting new patients who want the highest-quality outcomes.

Take Hamburg’s Martini-Klinik for instance: the private clinic specializes in the treatment of patients with prostate cancer. Today, it boasts an excellent reputation amongst referrers and patients. After all, it has a much lower incidence of postoperative complications compared to other

hospitals in Germany. At Martini-Klinik, the rates of erectile dysfunction, urinary incontinence, and other post-operative complications stand at 10%, 5%, and 6%, respectively. In other German hospitals, post-surgery, the prevalence rate of impotence is 73% while the rate of urinary incontinence is 16%, and the rate of other post-operative complications is 19%. As a result of its ability to maintain the highest standards of patient care, Martini-Klinik’s number of prostatectomies per year has risen significantly (21%) from 2004-2010. When it comes to the treatment of prostate cancer, the clinic absolutely dominates Germany’s healthcare sector with over 80% of the market share. The example of Martini-Klinik proves that outstanding quality and better cost control generate growth.

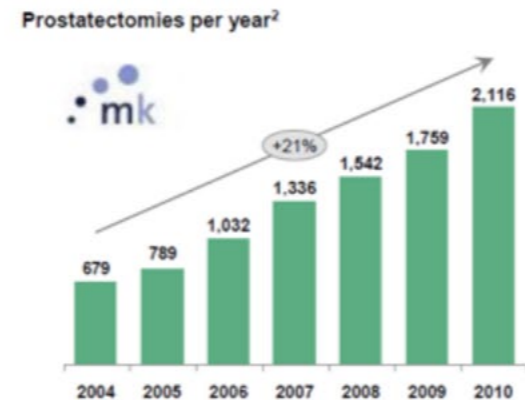
**Outstanding quality and better cost control results in growth**  
Martini Klinik specialized prostate cancer hospital in Hamburg

**Outstanding quality**



Excellent reputation among referrers and patients

**Growth**



High growth and market leadership in Hamburg, with over 80% market share

In other cases—for example, chronic diseases such as diabetes or congestive heart failure—providers will strive to become integrated-service institutions that take responsibility for the entirety of patient health in a given population across primary, secondary, and in some cases tertiary care. The integrated providers will manage the

population for maximum health-care value and will, to a large extent, manage their own integrated care chains. But they will also act as brokers, helping their patients navigate to the best independent providers, which align their approaches with the integrated providers’ systems and offer unique capabilities.



EXCELLENCE AND EXPERIENCE  
IN MEDICAL CARE



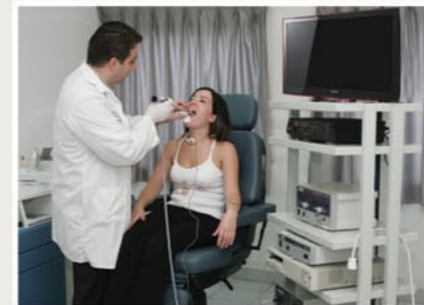
Operating Room



Excimer Laser



Digital Fluorescein Angiography & ICG



Stroboscopy



Evoked Potential ERG-VER-EOG-ABR-AEP-VNG

Advanced facility for diagnosis and management of eye, ear, nose, throat disorders, plastic surgery and dermatology. The Eye & Ear Hospital similarly joins the most qualified physicians and surgeons with the most up-to-date medical technology. Our medical staff currently numbers 25 ophthalmologists, 12 otorhinolaryngologists and 6 plastic surgeons.

**Our facility features:**

- 18 specialized outpatient clinics
- 50 inpatient beds
- 5 operating rooms
- Radiology & Laboratory facilities
- Refractive surgery center
- Cosmetic center
- Conference center
- Medical library

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