hfma
healthcare financial management association

CONSULTING FOR VALUE: HOW OUTSIDE ASSISTANCE CAN IMPROVE PERFORMANCE

CONSULTING FOR VALUE: HOW OUTSIDE ASSISTANCE CAN IMPROVE PERFORMANCE

As health care becomes more complex, the need for improvement more intense, and time more precious, healthcare organizations increasingly are turning to consultants to help with strategy, tactics, and execution. One particular area of priority that often requires consulting help is cost management.

But how can healthcare leaders know when a project requires consulting assistance? What are the key considerations that should guide an organization's decision to seek external expertise—and what areas of hospital and health system strategy and operations are particularly suited for consulting help?

This special section examines organizations that chose to use consultants, looking at why they made the decision for a specific project, the processes they used to determine which consultants to partner with, what the consulting arrangement looks like in each organization, and the benefits that consulting has afforded the organizations.

The report also addresses key questions hospitals and health systems should consider before engaging a consultant and how to ensure the partnership is successful.

SIMPLIFYING NURSE SCHEDULING

After several years of attempting to manage scheduling for 2,000 nurses using a software system that was not even designed for health care, the nursing department at Penn State Milton S. Hershey Medical Center decided it was time for outside expertise. Last August, the 563-licensed bed medical center in Hershey, Penn., hired a consultant to help analyze scheduling issues and develop solutions.

Penn State Hershey had spent significant resources on education and training, but the system was not designed to manage the complexity of nurse staffing in a healthcare environment when scheduling shifts across clinical departments, says chief nursing officer Sherry Kwater. As a result, there was a great deal of manual intervention to be certain that the nurse with the appropriate competency was assigned to the correct unit. Nurse managers had to resort to using spreadsheets and pen and paper to get schedules approved across 36 patient care areas and 57 medical practice sites—a cumbersome job that taxed the ability to forecast staffing needs. "On any given day, I know there was waste in that system," Kwater says.

Kwater says the complexity of the project, coupled with a desire for new knowledge that would offer "some new tips and tricks," warranted the need for outside help.

A committee composed of front-end staff—direct care nurses, charge nurses, nurse managers, and departmental directors—conducted a

gap analysis to identify underlying issues and then evaluated candidates that could bring the appropriate tools, resources, and knowledge to address these issues. Kwater says the objective was to find a partner that understood that end users had to accept any new processes and tools. "It was important to make sure that we were speaking the staff nurse's language and the manager's language when it came to understanding what the product could do for them, so they would migrate naturally to adopt it," she says.

One of the gaps in knowledge was the nursing department's inability to forecast the need for core versus contingency staff, which often resulted in overtime expense and overstaffing. Kwater says the consultant that was chosen had demonstrated this forecasting ability through its software tool, which had been implemented at another client's facility.

The consultant worked with the Penn State Hershey team to develop and incorporate customized business rules into the system. For instance, the system was designed to ensure that no nurse is scheduled for more than four 12-hour shifts in a row or for greater than 60 hours per week.

Kwater says timetables and deliverables built into the contract helped to keep the project on track on both sides. For example, Penn State Hershey agreed to provide resources, such as data, in a timely manner to meet project timelines. If the internal team was slow to deliver such information, the consultant agreed to push for those resources. A separate contract was used for the consulting and implementation stages.

The system was implemented in January 2013. Initial staff reaction to the new scheduling system during its initial implementation stage has been positive. "It is very intuitive, and that's what they love about it," Kwater says. She also notes that workflows have improved and compliance on the new system is strong.

For Penn State Hershey, the objective was to find a partner that understood that end users had to accept any new processes and tools.

Nurses were given a perception survey to measure baseline satisfaction with the new system; the survey will be repeated about six months after implementation. A dashboard of measures, such as number of hours dedicated to scheduling and the department's overtime percentage, will be used to monitor progress as use of the system progresses.

Once the system is fully implemented in the medical center and outpatient sites—about a six-month process—Kwater anticipates cost reductions of $1 million, or about 5 percent of nurse labor costs. "If we get really good at this, I would anticipate a greater opportunity over time," she says.

OUTSOURCING TRANSPORTATION SERVICES

At Advocate Health Care, Oak Brook, Ill., an integrated delivery system (IDS) with more than 250 sites, including 12 hospitals and two primary care support centers, the supply chain budget was eating up to 35 percent of operating expenses. A search for cost reduction opportunities led to an examination of the IDS's transportation services, where delivery of supplies to sites spread across nine counties was fragmented, leading to redundancy and inefficiency, says Tom Lubotsky, Advocate's vice president of supply chain and clinical resource management.

Lubotsky says a "make-versus-buy" analysis considered whether transportation was part of the IDS's core competency. Although the solution to reduce such inefficiency—standardizing transportation services—could have

been managed internally, with investment in new technology and vehicles, "That just wasn't our focus," Lubotsky says. Consequently, transportation services were centralized and outsourced to one company.

At the time the consultant was chosen, around 2006, there were not many companies that could manage transportation for such a large IDS, Lubotsky says. The consultant was new to a brand-new game, so to speak, and Lubotsky says that was appealing.

After assessing Advocate's existing transportation operations, the consultant found that scheduled and on-demand deliveries were not well planned or coordinated, leading to several services per day at one location, for example, when fewer would suffice. The consulting team developed service standards that aligned the level of service with actual need and established a more consistent delivery schedule. The new processes sometimes resulted in larger time windows for transportation service and fewer stops at some sites.

HIRING A CONSULTANT: WHAT TO CONSIDER

Hiring a consultant or outsourcing a function or department can require a significant amount of resources—time and money that may be wasted if the consultant ultimately offers little value or the outsourced vendor performs poorly.

Long before the contract is signed or the consultant is even chosen, hospitals and health systems should first ask questions such as the following.

What do we want from a consultant? Tom Lubotsky, vice president of supply chain and clinical resource management for Advocate Health Care, Oak Brook, Ill., puts consulting services into three buckets.

In the first bucket is consulting used to accelerate a current operation, such as expanding a facility. In the second bucket are services used to achieve a specific result or improvement and receive tangible benefits, such as lower costs. The third bucket contains those services meant to help an organization obtain a level of understanding, such as why labor costs are so high or the potential impact of a competitor's entry into a certain market.

The buckets help Lubotsky evaluate not only why a consultant is necessary, but also what he expects to get out of the arrangement. Not every type of consulting service will result in an economic gain, so organizations should enter into such arrangements carefully to truly understand the benefit. "This process helps me substantiate my thinking," Lubotsky says.

Can the consultant dig into the details? Gauging the true ability of consultants to solve an issue or make improvements requires an in-depth level of discussion of experience, says Micky Tripathi, president and CEO of MAeHC (Massachusetts eHealth Collaborative), which helps healthcare organizations in technology implementations. "Are they really speaking about the details, and I mean really detailed issues, that are going to come up, or are they only speaking in high-level terms?" Tripathi says. Consultants should be able to predict potential problems and explain how they would solve them. If the consultants cannot do this in a way that provides confidence and comfort, then it may be time to investigate other consultants, Tripathi says.

Does the consultant really possess the appropriate knowledge, tools, and resources? Who a consultant has worked with in the past and what results were achieved will strongly indicate whether a consultant has appropriate knowledge and experience in a particular area and should be placed on the possibility list for hiring, says Sherry Kwater, chief nursing officer for Penn State Hershey S. Milton Medical Center, Hershey, Penn. Consultants that have firsthand knowledge and experience within a specific area—such as the daily issues faced by nurse scheduling when an organization seeks help in nurse labor management issues—should be at the top of any list of candidates. Ideally, through their work with existing clients, consulting firms will have demonstrated an understanding of the desired objective of a hospital or health system. "I think that's the key piece," Kwater says.

Advocate asked staff for input on criticality of deliveries so priorities could be made for urgent deliveries. That input helped to generate staff buy-in to accepting changes to the frequency of deliveries. "The staff understood this was a great opportunity to control our costs and really define more clearly the urgency of deliveries," Lubotsky says.

DRIVING SUCCESS IN HEALTHCARE CONSULTING OR OUTSOURCING PROJECTS

Finding a partner that can bring needed expertise into a healthcare organization is only the first step toward attaining overall goals. Several strategies can help ensure a successful consulting or outsourcing partnership.

Be clear on deliverables. Contracts should clearly stipulate the specific results that a healthcare organization expects from the partnership. Projects get off track when the partners are confused about the end goal. "One person thinks you're going to get 'X' and the other thinks it's 'Y,'" says Sherry Kwater, chief nursing officer of Penn State Hershey S. Milton Medical Center. Kwater says the contract should name at least five deliverables, such as a change in process, a 5 percent cost reduction, or a final product. The fundamental question is, "Do you know what your deliverables are?" she says.

Pace success. An integral part of building a successful relationship is earning trust, says Tom Lubotsky, vice president of supply chain and clinical resource management for Advocate Health Care, Oak Brook, Ill. Lubotsky says an outside firm that is taking on a large project earns the trust of its client by garnering results on a smaller scope and then gradually taking on more responsibility. "You have to get used to working with the associates of a company. They'll help breed the trust and confidence, if the job is really being done well," he says. A food services vendor, for example, may start out by running cafeteria operations at only a few facilities of a multiple-hospital system, and then take over additional operations as results warrant. "Start out small, earn the trust, and then expand the scope," he says.

Like your consultants. Whether consultants are working on-site at a hospital on a daily basis or part of regular progress update meetings, the face time between external staff and internal staff is often considerable. Poor chemistry between the two can hinder positive results. That is why it is important to get to know the person or team handling the project before it actually begins, says Joseph Iannoni, CFO and vice president of finance for Jordan Health System, Plymouth, Mass. "It's almost as much a check of references around the people involved as it is of the firm." Along with checking those personal references, Iannoni suggests setting up preliminary "get to know you" meetings. Employees are more likely to accept changes directed by consultants if they feel comfortable with the people working on-site. "That has a lot to do with the success of the engagement," he says.

Demand to be pushed. Consulting or outsourcing projects can sour when consultants fail to keep up their end of the bargain. But hospitals also may be the culprits when objectives aren't met. For example, hospital managers may be lax in getting pertinent data to consultants, who then will be delayed in completing analysis and developing solutions. Consultants, therefore, should be charged with pushing internal staff to keep up their own set of deliverables, says Sherry Kwater, adding that consultants should actually "hold your feet to the fire." "That's a great advantage because sometimes it's very easy in your day-to-day work to let a timeline slip," she says.

Do not abdicate control. Although an overall objective in many consulting or outsourcing relationships is for outside expertise to drive change and achieve positive outcomes, hospitals should not let go of the reins and lose total control of the project. After all, the results have to continue long after the consultant is gone.

"It has to be an engagement where you're working with the consultants. You're working as hard as they are on the project, making joint decisions. You're using their experience to help you make the right decisions for your organization," Iannoni says. "It can't just be a consulting project because then it won't be a sustainable project."

To ensure performance, service-level agreements in the outsourcing contract specify required performance measures, including rates in such areas as on-time deliveries, response time for on-demand deliveries, and productivity (such as trips per van). Advocate's point person, the contract manager for purchased services, reviews a performance report quarterly, and Advocate staff is given satisfaction surveys on a regular basis.

After the initial implementation of changes to Advocate's transportation and mail services, total spend was reduced by 20 percent—and the cost savings opportunities continue, Lubotsky says. For example, within the past year, Advocate reduced freight costs by about $125,000 annually by shifting delivery of supplies to its approximately 120 practice sites from its distributor to the transportation consultant. "We discover more opportunities to use the internal courier to help us move things from one site to the next," Lubotsky says.

UNDERSTANDING EFFECTIVE LABOR MANAGEMENT

A strategic planning analysis of its stand-alone status uncovered an opportunity to reduce labor costs by $7 million at Jordan Health System, which includes a not-for-profit community hospital with 150 beds in Plymouth, Mass. "We needed to be more diligent to match staffing with our volumes, which are decreasing because of utilization changes," says Joseph Iannoni, Jordan's CFO and vice president of finance.

Iannoni says a culture entrenched in the unrealistic belief that volumes would someday increase was an underlying reason for seeking outside help to revamp labor practices. Iannoni says he tried to get department heads to develop labor reduction targets, but they were more focused on debating what the standards for those targets should be. The complexity of working with unions on labor reductions—about 95 percent of the hospital's employees are unionized—also underscored the need for external help.

For Jordan Health System, the key strategy of its labor management project was making cost reduction a zero sum game, meaning department targets were flexible, so long as the overall goal was met.

The consultant chosen for the labor management project was the same one used for the strategic analysis. Iannoni liked the consultant's labor cost tracking tools and ideas for reducing costs, including setting FTE staffing targets for each of the hospital's approximately 50 departments based on national, local, and internal historical benchmarks.

Iannoni says the key strategy was making cost reduction a zero sum game, meaning department targets were flexible, so long as the overall goal was met. This approach garnered buy-in from department heads. "There was the mentality that we weren't going to argue standards anymore; we were just going to develop plans," he says. "It was pretty simple, but very effective."

Working with the consultant, the department heads had five weeks to develop those staffing plans. Overall, 80 non-care and care-related positions out of the hospital's 1,100 FTEs were eliminated, resulting in savings of more than $7 million. Of those 80 positions, about one-third were reduced through natural attrition, one-third left through an early resignation program, and one-third were laid off. The main issue was that employees throughout the departments were scheduling shifts based on

personal preferences, rather than the needs of the hospital. For example, because many employees did not want weekend shifts, those shifts were filled using overtime labor. Low-volume days, in turn, were overstaffed.

Iannoni negotiated a fee-based rather than a more typical hourly consulting contract that included deliverables for reduction targets and covered the cost of helping to develop departmental reduction plans, assisting in union negotiations, implementing the reduction plans, and deploying the tracking tool used by department heads. A steering committee chaired by the consultant and including Jordan Health System's senior management team met every two weeks to review performance.

The new labor management process has been sustainable even several months after the consulting period ended, in part due to the cost tracking tool, which warns department heads when they are surpassing staffing targets, Iannoni says. "We are still keeping that cost out of the organization."

FACTORS TO CONSIDER

There are a multitude of external and internal factors that lead healthcare leaders to examine whether to outsource specific hospital services. However, in a recent HFMA CFO Forum article, hospital leaders say the decision on whether to outsource often comes down to two different fundamental considerations: quality controls and cost management. Other factors include difficulty in recruitment and retention, cuts to Medicare reimbursement, and the desire to have providers focus more on core competencies (Coltey, D., Lawson, S.G., and Jebson, L., "Mitigating Outsourcing Challenges," Oct. 22, 2012).

For example, Lakeside Health System, a 100-bed community hospital in western New York, wanted to implement an EHR system to meet Stage 1 meaningful use criteria. Lakeside outsourced IT services to handle the rollout and ongoing operations of its clinical and financial systems, resulting in a cost savings of approximately $200,000.

Rather than a more typical hourly consulting contract, Iannoni negotiated a fee-based contract that included deliverables for reduction targets and covered the cost of implementing the reduction plans.

Outsourcing of certain departmental services can free up staff to focus on patient care. For example, Danbury Hospital in Connecticut hired a food service company to operate all of its food services, including patient and cafeteria meals, reports the *Danbury News-Times* (Miller, R., "Danbury Hospital to Outsource Food Services," Aug. 10, 2011). The outsourcing has been estimated to save the hospital $1 million a year.

Prince William Hospital, in Manassas, Va., outsourced its health information management (HIM) department, business office, and both its medical and diagnostics transcription functions so the hospital could zero in on core competencies. CFO Bob Riley, to whom the HIM department reports, is quick to say, "This decision in no way lets me off the hook. These functions are still on my plate, and I'm still responsible to deliver." But the business philosophy behind the decision to outsource, he says, is one of getting the job done, not recruiting 12 months a year to find the talent and then trying to retain that talent.

"If we need experts, let's get experts in here," Riley says in the CFO Forum article. "Getting it done is more important than how we go about it. Let's get the job done so we can focus on patient care." ●