FYA For Your Advantage™
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September 19, 2005

An Essential Tool for Healthcare Leaders
From TrendLeader Connections
Sponsored by PHNS The HealthCaring Solution

By S. Harvey Price

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About FYA

FYA - *For Your Advantage,* is a free twice - monthly newsletter published by TrendLeader Connections.

With every issue, FYA provides insights into the topics that concern healthcare leaders today and the challenges that will be faced in the near future.

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What's Disruptive Innovation?

The New Success Factor

By John W. Kenagy, MD, MPA

The first column I wrote for FYA under The New Success Factor (August 15, 2005) began with this quote: "A group of West Coast healthcare leaders recently asked me if I thought the current system is 'dysfunctional and unlikely to self-correct.' What do *you* think?" The article included a self-assessment test (15 questions, 5 points for each "Yes" answer, maximum score 75). Here's the answer key:

Score 0-25: Healthcare is functional; let's keep doing what we're doing.

Score 25-50: Healthcare is dysfunctional; we can correct it ourselves.

Score 50-75: Healthcare is dysfunctional; it will not self-correct.

Several CEO readers of this newsletter e-mailed me their scores. Their average score was 54, which is consistent with most who take the test. I've used this test across the country, in many different healthcare markets. I do not claim scientific results, but the average score in large groups is always > 50. The highest scores (65-75), revealing the greatest dysfunction, are usually from executives of leading institutions in America's most competitive healthcare markets. My definition of a "competitive market" is one that shows strong evidence of Disruptive Innovation. What then, is Disruptive Innovation?

To answer that question, let's look first at the current condition. We see great effort and resources being poured into more technology, facilities, tighter metrics and control, quality improvement initiatives, best-practice implementations and new governmental/regulatory solutions. It all makes good business sense, so we must just need to try harder, right?

But is "trying harder" really the answer? We've already identified healthcare as dysfunctional and unlikely to self-correct. I've been a physician for 34 years, as well as a health system executive, management researcher/teacher, advisor and patient. In my experience, dysfunction has increased over recent decades *as we tried harder to fix the system,* and today we are no closer to solving our healthcare problems. The usual efforts and investments may make good business sense, but they aren't working. Can we find a new common language, and discover another way to frame our problems and their solutions?

An environment rife with difficult problems and inadequacies; telephones, when telegrams are doing quite nicely? Why give up profitable mainframes and minicomputers for those dinky new personal computers? Why bother with discount merchandising when our big downtown department store prospers? Why change

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What's Disruptive Innovation? (Continued...)

conventional-wisdom solutions. This is what makes the notion of Disruptive Innovation so timely. Coined by Harvard Business School professor Clay Christensen, we introduced the concept to healthcare in the September-October 1999 *Harvard Business Review*. Simply put, Disruptive Innovation is a new innovation (technology, product, service, or system) that ultimately displaces the existing, dominant way of doing things. The disruption is a radical departure from the norm, and succeeds despite enormous resistance. The core of the concept is that, paradoxically, the capabilities of successful organizations and industry experts become their disabilities in the face of developing simpler, more reliable, accessible, affordable solutions to their problems. Trapped by success, we miss opportunities to create new products and services based on less complex ideas and technologies that don't match present methods and "best business practices."

History is clear: leading organizations are challenged by new opportunities that aren't consistent with their business models, methods or views of the market. Why worry about our profitable airline strategy to do what some crazy, tiny, regional Texas carrier is doing? Why build low-cost, accessible ambulatory surgery or diagnostic centers when our hospital has all this capacity in full-service operating rooms and laboratories? Why change the way I practice medicine or do surgery, when it's worked great for years?

That's the "innovator's dilemma:" doing and improving on what we do best might cause us to miss great new opportunities that could dramatically benefit our institutions and patients. Therefore, The New Success Factor is not written for executives who want another primer on current "best-practice business methods." Rather, our audience is healthcare leaders who share a concern that "trying harder" isn't working. These leaders are willing to explore practical strategies and tactics that:

1. Identify when "best-practice business methods" are not sufficient
2. Develop what to do differently

I ended my last column with a quote from Albert Einstein: "You cannot solve the problems of the present with the solutions that produced them." Edward Gamache, administrator of Deckertown Community Hospital, responded by e-mail and reminded me of another favorite Einstein quote: "Insanity is repeating the same behaviors and expecting different results." Next month, let's take a look at insanity through a different lens and start to identify some new opportunities available to everyone willing to "develop what to do differently."

So, what do you think?

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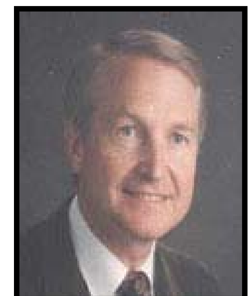

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About

FYA - For Your Advantage is brought to you by TrendLeader Connections. The function of TrendLeader Connections is producing educational materials and seminars that help healthcare executives differentiate between fads and trends; and making connections with "Trend Leaders" within the healthcare industry.

We are committed to delivering new perspectives and ideas, creative and innovative healthcare solutions, provocative concepts and quality educational materials to today's healthcare leaders. We want to concentrate on "what comes after what comes next."

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Where are Your Medical Records?

By: Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

Hurricane Katrina not only destroyed many hospitals and other healthcare providers in the New Orleans and Gulf Coast regions, but it destroyed the paper medical records of Katrina evacuees or made them inaccessible. When the Katrina evacuees were forced to move to adopted volunteer cities throughout the country, local hospitals and physicians were forced to provide medical care for the evacuees without access to their medical records. This makes it more difficult and expensive to provide such care, and has led to a new round of calls for a national electronic medical records (EMR) network.

While most agree on the advantages of a national EMR, the critical gating issue still is the huge cost and who is going to pay for it. A recent study at Brigham and Women's Hospital/Massachusetts General Hospital estimated a national EMR would cost about $156 billion to create and about $48 billion per year to operate, or a staggering $200 billion. A previous estimate by the Center for Information Technology Leadership put the initial cost at $275 billion, although it found that such cost would eventually be offset by an estimated $87 billion in annual savings (of which hospitals would save about $37 billion). But whatever the amount, it is way beyond the current financial ability of the healthcare industry, and it seems unlikely that the federal and state governments will put up such a mind-boggling amount anytime soon.

So, what can be done in the meanwhile? Individual hospitals and hospital systems that have sufficient financial and technical resources are implementing EMRs, but that's only a very small percentage of the entire industry. What about the rest? Remember the predictions of the "checkless society"? I predict that paper medical records will be around as long as paper checks, so let's figure how how to deal with them more effectively.

Let's start with hospitals. Do you know where your paper medical records are stored? Have you personally inspected your medical record storage facility (whether it's yours or you've outsourced it to someone else) to determine how the records are stored; whether the location is subject to hurricane, flood, tornado or other Acts of God risks; how they're protected for HIPAA patient privacy purposes; and how quickly and effectively they're retrieved and delivered to your physicians and caregivers when requested for patient care or release of information purposes, and how that delivery is assured during Katrina types of natural disasters? Have you considered the desirability of combining your medical records function with other hospitals in your region to improve services, particularly during disasters, and to reduce costs?

Then let's focus on patients. Do you offer to provide your patients with copies of their paper medical records so that they can have them when needed in an emergency? Of course that raises medical record privacy issues, but who better than the patient to protect and preserve the patient's medical record?

While we're waiting for the EMR Nirvana, why not do something to improve safety and accessibility of paper medical records?

I would like to hear your comments. Send them to: Richard.Kneipper@phns.com

About

PHNS is an innovative healthcare services company providing strategic outsourcing services in information technology, health information management and receivables management to approximately 160 hospitals. PHNS is not a consultant, vendor or software company but a partner, a solution. PHNS understands healthcare because our partners are healthcare and healthcare only. Unlike its competitors, PHNS strategically aligns itself with a hospital's clinical and financial goals and objectives. Through its unique business model, PHNS reduces costs by aggregating, consolidating and sharing resources among its participating hospital partners. PHNS helps hospitals manage information systems, computer technology, patient records, coding and patient billing to improve patient care, safety and efficiency and increase profitability and efficiency. For more information, visit www.phns.com.

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A Sneak Peek Into the New Era?

By S. Harvey Price

In the last issue of FYA, we discussed the growing trend of Health Savings Accounts (HSAs). Employers are searching for new ways to contain healthcare costs. The reason is simple. The Wall Street Journal reported that employers are facing a 9.2 percent increase in the cost of providing healthcare to employees this year, pushing the premium for an average family health plan above the annual salary for a minimum-wage worker.

The solutions that are gaining popularity, for the moment, are those that increase employee financial involvement and promote employee participation in treatment choices.

The California HealthCare Foundation in Oakland reported the following:

- Although only 10 percent of businesses offer a plan with at least a $1,000 deductible, that number is increasing rapidly.
- Spending by those in a high-deductible plan would likely be four to 15 percent lower than in today's typical plan.
- One estimate foresees five million enrollees in HSAs or HRAs (Health Reimbursement Accounts) by the end of this year.
- Early enrollments suggest that, at least initially, HSAs have been most popular in the non-group market, and that large group business accounts for only about three percent of enrollment. This will probably change as employers make choices for their next enrollment period.
- Since HSA dollars roll over from year to year, consumers will have an incentive to preserve the accounts and use less medical care if they realize that spending reduces the funds they will have later.
- No one has shown conclusive evidence that healthcare use and healthcare outcomes are better or worse with healthcare accounts.

A component of the consumer-driven movement is tiered-benefit designs. For example, with drugs under a three-tier design, consumers incur the lowest out-of-pocket costs when using generic drugs, higher costs for preferred brand-name drugs and the highest costs for non-preferred drugs. This strategy is designed to reduce drug spending growth by shifting costs to consumers, steering them to less-expensive drugs and creating incentives for manufacturers to offer deeper price discounts in exchange for placing their drugs on preferred tiers.

We are beginning to see large insurers offering tiered-hospital and tiered-medical group networks. The early designs placed providers into a limited number of tiers, primarily based on cost differences. Most insurers are now taking cost and quality into consideration to establish provider tiers. Early reports from insurers suggest that the new tiered products have reduced costs.

With the burden of healthcare choices shifting to the consumer, information tools become more important. The Internet is rapidly becoming an important source of information, however, the accuracy and completeness of information is called into question.

The California HealthCare Foundation points out that barriers to consumer use of tools in making choices include: lack of standardized performance measures; lack of comprehensive information; and inconsistency of information. More research is needed to evaluate the role of information tools on patient decision making; and more has to be done for patients who don't have access to the current tools.

It's only a question of time before your hospital is affected by this new consumer trend.

The Kaiser Family Foundation and Health Research and Educational Trust reports that this year's 9.2 percent increase in the cost of providing health care to employees is three times bigger than the average increase in workers' income and nearly triple the inflation rate. Employers' premiums have climbed 73 percent in the past five years, bringing the average annual premium for family coverage to $10,880.

Few employers with more than 200 workers have dropped health coverage, the Kaiser study reports, but they do continue to reduce benefits or shift more of the costs to employees. Another survey published last week by Mercer Human Resource Consulting reports that employers expect to bring next year's average healthcare cost increase down to 6.4 percent, but only by raising employees' premiums and deductibles and introducing measures such as programs that manage costly diseases such as diabetes, hypertension and other chronic illnesses.

You made it through Medicare/Medicaid, DRGs, PPOs and HMOs. Gear up for the next era-HSAs.

Send your opinion to:
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