March 2012

Service Lines Grow Amid Strategic Challenges

By Joe Cantlupe

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Foreword

THE GROWTH AND IMPORTANCE OF SERVICE LINES

While the heat is on with a challenging economic climate, declining reimbursements, and a move to value-based purchasing, there is one arena where hospitals continue to expand, no matter the uncertainties of reform. It engages every physician and nurse, every clinical and support staff member in an uncompromising quest for clinical and service excellence.

That arena involves the centers of excellence, or service lines, where teams of healthcare professionals work diligently to prevent, screen, diagnose, treat, and rehabilitate patients with chronic conditions and common ailments. The traditional service line offerings of cardiovascular, oncology, orthopedics, women’s health, and emergency medicine are quickly expanding into specialties that include pediatrics, imaging, neurosciences, rehabilitative medicine, respiratory, gastroenterology, obesity, health promotion, medical homes, and retail health. The goal is universal—bringing together the best teams, knowledge, and skill sets to manage population health in the communities served.

As an integrated delivery system serving Southern California’s highly populated Los Angeles and Orange counties, MemorialCare Health System is on an ambitious journey to increase the value of our service line offerings. We are accomplishing this through comprehensive electronic medical record systems, decision-support services, and data warehouses that help drive decision-making, heighten quality and outcomes, improve efficiencies and productivity, and coordinate service lines across the health system. We are aligning with increasing numbers of physician organizations, hospitals, health plans, employers, ambulatory facilities, long-term care programs, schools, public health agencies, and community organizations.

It’s been nearly two decades since we engaged 1,500 independent physicians in our MemorialCare Physician Society. These remarkable physicians—whose commitment to ensure those entrusted to our care receive the best that medical care has to offer—lead our best practice teams in developing clinical guidelines for hundreds of medical conditions. They help prioritize technological needs, collaborate in financial and capital planning, and ensure selection and implementation of inpatient and ambulatory EMRs are successful and seamless.

While politicians and pundits continue to debate, discuss, and dissect elements of reform, those of us privileged to act as stewards of healthcare in our communities face the future with enthusiasm. Excellence in service lines demands steadfast fiscal discipline, constant pursuit of bold goals, staying ahead of the curve, and implementing new approaches to ensure the highest levels of patient satisfaction, physician partnerships, and employee engagement. Most important, it’s about delivering on the promise to our communities to provide the finest quality service and clinical excellence that positively impacts their lives.

Barry Arbuckle, PhD
President and CEO
MemorialCare Health System, Fountain Valley, CA
Lead Advisor for this Intelligence Report
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Methodology

The 2012 Service Lines Survey was conducted by the HealthLeaders Media Intelligence Unit, powered by the HealthLeaders Media Council. It is part of a monthly series of Thought Leadership studies. In December 2011, an online survey was sent to the HealthLeaders Media Council. Respondents work in hospital and health system settings. A total of 305 completed surveys are included in the analysis. The margin of error for a sample size of 305 is +/- 5.6% at the 95% confidence interval.

ADVISORS FOR THIS INTELLIGENCE REPORT

The following healthcare leaders graciously provided guidance and insight in the creation of this report:

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Springfield, IL

Lane Savitch
President
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Richland, WA

Susan Stone
Chief Nursing Officer
Sharp Memorial Hospital
San Diego
Respondent Profile

Respondents represent titles from across the various functional areas including senior leaders, operations leaders, clinical leaders, financial leaders, marketing leaders, and information leaders. More than one-third of the respondents have senior leader titles. They are from hospitals and health systems.

<table>
<thead>
<tr>
<th>Title</th>
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<tbody>
<tr>
<td>Base = 305</td>
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</table>

35% Senior leaders 29% Clinical leaders 25% Operations leaders 7% Marketing leaders 3% Financial leaders 2% Information leaders

Senior Leaders | CEO, Administrator, Chief Operations Officer, Chief Medical Officer, Chief Financial Officer, Executive Dir., Partner, Board Member, Principal Owner, President, Chief of Staff, Chief Information Officer
Clinical Leaders | Chief of Orthopedics, Chief of Radiology, Chief Nursing Officer, Dir. of Ambulatory Services, Dir. of Clinical Services, Dir. of Emergency Services, Dir. of Nursing, Dir. of Rehabilitation Services, Service Line Director, Dir. of Surgical/Perioperative Services, Medical Director, VP Clinical Informatics, VP Clinical Quality, VP Clinical Services, VP Medical Affairs (Physician Mgmt/MD)
Operations Leaders | Chief Compliance Officer, Chief Purchasing Officer, Asst. Administrator, Dir. of Patient Safety, Dir. of Quality, Dir. of Safety, VP/Dir. Compliance, VP/Dir. Human Resources, VP/Dir. Operations/Administration, Other VP
Marketing Leaders | VP/Dir. Marketing/Sales, VP/Dir. Media Relations
Financial Leaders | VP/Dir. Finance, HIM Director, Director of Case Management, Director of Revenue Cycle
Information Leaders | Chief Medical Information Officer, Chief Technology Officer, VP/Dir. Technology/MIS/IT

<table>
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<tr>
<th>Type of Organization</th>
</tr>
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<tbody>
<tr>
<td>Base =305</td>
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</table>

Hospital 65%
Health system 35%

<table>
<thead>
<tr>
<th>Number of Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base = 199 (Hospitals)</td>
</tr>
</tbody>
</table>

1–50 21%
51–199 26%
200–499 38%
500–999 13%
1,000+ 3%

<table>
<thead>
<tr>
<th>Number of Sites</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base = 106 (Health systems)</td>
</tr>
</tbody>
</table>

1–5 28%
6–20 26%
21–49 25%
50+ 21%
ANALYSIS

Physicians, Finances, and Growth Top Leaders’ Lists

By Joe Cantlupe

Healthcare leaders foresee dramatic growth in service lines but anticipate difficult obstacles in aligning with physicians as the healthcare industry moves to improve value.

Over the next two years, 75% of hospital and health system leaders say they plan to expand their existing service lines, such as heart and oncology programs, and 50% say they will establish new service lines.

Lane Savitch, president of the Kadlec Regional Medical Center in Richland, WA, agrees that expansion is being strongly considered among healthcare leaders. “The rationale for doing so is clearly related to improving clinical performance,” he says, “creating horizontal integration and alignment across the continuum of services related to the service line, between services and providers, as well as for revenue and market growth.”

Leaders reveal that their top three service line challenges all involve physicians and finances. More than half (54%) say there is difficulty in attaining physician alignment with organization goals, and another 8% say it is very difficult. Along those lines, 41% say it is difficult developing physician compensation...
plans, with another 13% saying it is very difficult. And 40% cite difficulty in acquiring strategic physician organizations, with another 12% saying it is very difficult.

Some of those difficulties may be due in part to the structural relationship between the physician and the hospital or health system. Two-thirds (67%) of hospital and health system leaders describe their service lines as partially aligned with physician practices, while just 23% say they are fully aligned.

When asked about efforts to align physicians with service lines, 74% of healthcare leaders say they are developing standard clinical and operational procedures, but only 35% say they involve physicians in fiscal oversight of the organization.

There is keen irony in those figures, but that is likely to change as more hospital organizations develop plans involving physician leadership, says Barry Arbuckle, PhD, president and CEO of MemorialCare Health System, which has six hospitals in Los Angeles and Orange counties in California.

“Historically, who knows a hospital better than physicians from many perspectives,” Arbuckle says. For years, hospital leadership had preferred “zero physicians on hospital governing boards, but they are lightening up on that. There have always been barriers for physician involvement.”

The trend toward physician employment is also playing a role in expanding leadership opportunities.

“Physicians have begun to turn to hospitals as a result of their being increasingly challenged by their private practice’s financial situations,” Savitch adds. “They are more than happy to turn the responsibility over to the hospital and being placed on salary or straight production or some combination of the two.”

“An effective leadership team for the service line can drive integration, develop and drive improvement in clinical performance metrics, and create value for patients.”

—Lane Savitch
President, Kadlec Regional Medical Center, Richland, WA
“That being said, I suspect that the more advanced service lines have learned that clinical integration can occur more effectively if it is combined with financial responsibility,” Savitch says. “If that is the case, the 35% figure will grow over time as the service lines mature.”

Arbuckle says he also anticipates that more healthcare systems will include physicians in roles of fiscal importance. More healthcare organizations “will see physicians in senior equity and managerial roles,” he says.

At MemorialCare Health System, a medical foundation and physician academy were established to develop physician leadership programs, which have resulted in doctors “getting a true involvement in key decision-making areas” such as electronic medical records or developing accountable care organization capabilities, Arbuckle says.

“As we contemplate more physicians in governance, we realized doctor training was not truly in the business part of healthcare. This is something we have been willing to invest in for the long haul,” Arbuckle adds.

To deal with physician alignment issues, hospitals are leaning toward a comanagement structure. The survey shows that healthcare leaders favor co-leadership, 66%; administrative-led, 41%; and physician-led, 16%.

“[Comanagement] is really more difficult than it sounds; effective physician leaders are relatively rare, and successful departmental managers do not necessarily have the same skill set to be successful service line administrators,” Savitch says. Many independent providers “have been narrowly focused on their niche within the market for many years, and are neither concerned nor interested in being a part of the bigger picture,” he says.
“An effective leadership team for the service line can drive integration, develop and drive improvement in clinical performance metrics, and create value for patients,” Savitch adds.

As hospital systems work toward greater physician involvement, they will examine expanded and new service lines, says Bob Ritz, CEO of St. John’s Hospital in Springfield, IL. “From a market standpoint, there is a clear movement from volume to value, and the service line orientation is a great opportunity to create value,” says Ritz. “Still, service line structures are very complicated.”

The survey shows that healthcare leaders expect the greatest increase in patient volume in the heart service line, selected by 49%; followed by cancer/oncology, 48%; orthopedics, 44%; primary care, 33%; emergency medicine, 24%; geriatrics, 24%; women’s health, 18%; pain management, 13%; and bariatrics, 11%.

According to the survey results, 72% of healthcare leaders say that clinical needs are driving investment in service lines, followed by revenue stream (71%) and patient population (58%). Some healthcare leaders are becoming more involved in population health, with an increasing service line focus, while others are developing accountable care organization programs, Ritz says. Demographics has taken on a great importance in development of service lines into various aspects of care, with some healthcare systems increasing their service line offerings in wellness or neurological programs, as well as residential home health care to increase the potential for improvement in continuum of care, Ritz says.
As hospital systems evaluate their service lines, at least 93% say they are developing or incorporating outpatient programs to support them. And 24% say their outpatient programs are competing with their own service lines.

Susan Stone, chief nursing officer at Sharp Memorial Hospital in San Diego, says she was surprised that not more healthcare leaders believed their outpatient facilities were competing with their own service lines.

“We’ve seen in the nation how much specialty outpatient there is. It’s a little bit of a dance, and it is going to be very interesting, whether it is overdone or oversized,” Stone says.

Joe Cantlupe is senior editor for physicians and service lines for HealthLeaders Media.
Survey Results

**FIGURE 1 | Service Line Changes Planned Over Next Two Years**

Q | Over the next two years, what changes do you plan to make regarding your organization’s service lines?

![Bar chart showing service line changes planned over next two years.]

- Establish new service lines: 75%
- Expand existing service lines: 50%
- Reduce existing service lines: 11%
- Close existing service lines: 9%
- Consolidate existing service lines: 17%
- No changes: 10%

Base = 305
Multi Response

**FIGURE 2 | Leadership Structure of Service Lines**

Q | Describe the leadership structure of your service lines.

![Bar chart showing leadership structure of service lines.]

- Co-leadership: 66%
- Administration-led: 41%
- Physician-led: 16%
- Other: 1%

Base = 305
Multi Response
Survey Results (continued)

**FIGURE 3 | Service Line Investment Drivers**

**Q | What is driving your investment in service lines?**

- Clinical needs: 72%
- Revenue stream: 71%
- Patient population: 58%
- System planning: 46%
- Competition: 40%
- ACO development: 27%
- IT/EHR utilization: 14%
- Other: 4%

Base = 305
Multi Response

**FIGURE 4 | Service Line Cost-Cutting and Efficiency Initiatives**

**Q | Have you used cost-cutting and efficiency initiatives, such as Lean techniques, for any of your service lines?**

- Yes, all lines: 58%
- Yes, some lines: 26%
- No: 15%

Base = 305
Survey Results (continued)

**FIGURE 5 | Person Designated to Lead Service Line Improvement**

**Q | Who within your organization is designated to lead efforts to improve service lines?**

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service line director</td>
<td>28%</td>
</tr>
<tr>
<td>COO</td>
<td>19%</td>
</tr>
<tr>
<td>CEO</td>
<td>17%</td>
</tr>
<tr>
<td>Committee structure</td>
<td>15%</td>
</tr>
<tr>
<td>CMO</td>
<td>5%</td>
</tr>
<tr>
<td>CNO</td>
<td>4%</td>
</tr>
<tr>
<td>CFO</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
</tr>
</tbody>
</table>

Base = 305

**FIGURE 6 | Service Line Alignment With Physician Practices**

**Q | To what degree are your organization’s service lines aligned with specific physician practices?**

<table>
<thead>
<tr>
<th>Degree</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully aligned</td>
<td>67%</td>
</tr>
<tr>
<td>Partially aligned</td>
<td>23%</td>
</tr>
<tr>
<td>Not aligned</td>
<td>10%</td>
</tr>
</tbody>
</table>

Base = 305
Survey Results (continued)

**FIGURE 7 | Efforts Used to Align Physicians With Service Lines**

**Q** Which of the following efforts are used to align physicians with your organization’s service lines?

- Development of standard clinical and operational procedures: 74%
- Agreement on strategic and long-term goals: 72%
- C-suite–driven initiatives: 49%
- Development of agreements on use of products and procedures: 43%
- Involvement of physicians in fiscal oversight of the organization: 35%
- Other: 5%

Base = 305
Multi Response

**FIGURE 8 | Top Three Metrics Used to Evaluate Service Line Structure and Performance**

**Q** Which of the following metrics are used in evaluating your organization’s service line structure and performance?

- Quality outcomes: 86%
- Patient experience: 54%
- Margin: 45%
- Patient volume: 40%
- Physician compliance with organizational goals and processes: 23%
- Clinical competencies: 18%
- Competition: 8%
- Physician incentives: 8%
- Innovation: 6%
- Other: 1%

Base = 305
Multi Response
Survey Results (continued)

**FIGURE 9 | Structure Used for Service Lines**

Q | Does your organization use a common management structure for all service lines, or are varied structures used based on the particular service line?

- **44%** Common structure
- **56%** Varied structure

Base = 305

**FIGURE 10 | Impact of Shift From Volume-Based to Value-Based Reimbursement on Service Lines**

Q | What impact will the shift from volume-based to value-based reimbursement have on your service lines?

- **43%** Very positive
- **31%** Positive
- **19%** Neutral
- **7%** Negative
- **1%** Very negative

Base = 305
Survey Results (continued)

**FIGURE 11** Top Three Service Lines Expected to Have Greatest Increase in Patient Volume in the Next Two to Five Years

*Q* In the next two to five years, in which three service lines do you expect the greatest increase in patient volume? Select up to three.

<table>
<thead>
<tr>
<th>Service Line</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heart (cardiology, cardiovascular, pulmonary medicine)</td>
<td>49%</td>
</tr>
<tr>
<td>Cancer/oncology</td>
<td>48%</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>44%</td>
</tr>
<tr>
<td>Primary care</td>
<td>33%</td>
</tr>
<tr>
<td>Emergency medicine</td>
<td>24%</td>
</tr>
<tr>
<td>Geriatrics</td>
<td>24%</td>
</tr>
<tr>
<td>Women's health</td>
<td>18%</td>
</tr>
<tr>
<td>Pain management</td>
<td>13%</td>
</tr>
<tr>
<td>Bariatrics</td>
<td>11%</td>
</tr>
</tbody>
</table>

Base = 305
Multi Response

**FIGURE 12** Ratings of Various Aspects of Service Lines

*Q* Please rate the following aspects of your service lines, where 1 is very difficult and 5 is very easy.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Very difficult</th>
<th>Difficult</th>
<th>Neutral</th>
<th>Easy</th>
<th>Very easy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing physician compensation plans</td>
<td>13%</td>
<td>41%</td>
<td>31%</td>
<td>14%</td>
<td>1%</td>
</tr>
<tr>
<td>Acquiring strategic physician organizations</td>
<td>12%</td>
<td>40%</td>
<td>37%</td>
<td>11%</td>
<td>-</td>
</tr>
<tr>
<td>Achieving physician alignment with organizational goals</td>
<td>8%</td>
<td>54%</td>
<td>22%</td>
<td>13%</td>
<td>2%</td>
</tr>
<tr>
<td>Achieving post-M&amp;A organizational integration</td>
<td>6%</td>
<td>34%</td>
<td>50%</td>
<td>10%</td>
<td>-</td>
</tr>
<tr>
<td>Developing growth strategies for new service lines</td>
<td>5%</td>
<td>35%</td>
<td>30%</td>
<td>29%</td>
<td>3%</td>
</tr>
<tr>
<td>Developing an effective management structure</td>
<td>3%</td>
<td>30%</td>
<td>31%</td>
<td>33%</td>
<td>3%</td>
</tr>
<tr>
<td>Developing growth strategies for existing service lines</td>
<td>2%</td>
<td>37%</td>
<td>27%</td>
<td>32%</td>
<td>3%</td>
</tr>
<tr>
<td>Achieving high-quality patient outcomes</td>
<td>0%</td>
<td>23%</td>
<td>35%</td>
<td>37%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Base = 305
Survey Results (continued)

**FIGURE 13 | Incorporating Outpatient Programs to Support Service Lines**

Q | Are you developing or incorporating outpatient programs to support your service lines?

- **Yes**: 93%
- **No**: 7%

Base = 305

**FIGURE 14 | Outpatient Programs Competing With Service Lines**

Q | Are your outpatient programs competing with your own service lines?

- **Yes**: 24%
- **No**: 76%

Base = 305