Mergers Offer the Perfect Opportunity to Boldly Transform the Revenue Cycle

THE CHARTIS GROUP

The provider industry is seeing continued consolidation. Despite the pandemic, which initially slowed merger activity compared to the previous years, the market has seen merger activity involving an annual average of 251 hospitals over the last 5 years—148 in 2020 alone.[1]

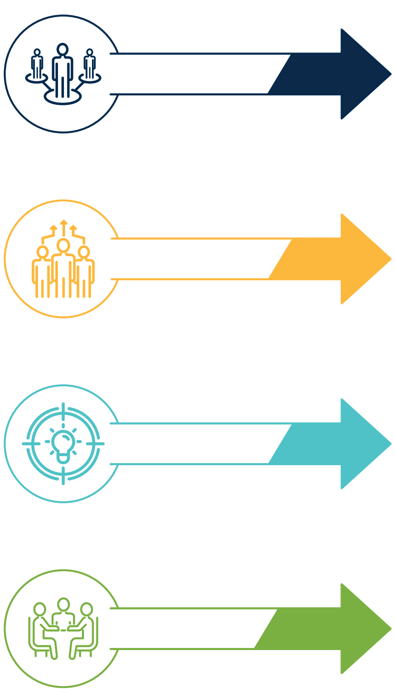
This activity is motivated in part by heightened margin pressures, with many organizations seeking financial sustainability through integration. And yet, scale alone does not inherently drive improved financial performance. In fact, in some cases, integration itself introduces new financial risks for the merging organizations. Executing an intentional approach to integration can mitigate these risks, by beginning planning pre-close and prioritizing initiatives that will drive value realization.

In any merger or acquisition, it is critical that the resultant revenue cycle enterprise be aligned to support the newly formed organization's strategy and to enable the realization of full revenue potential.

TOTAL COLLECTIBLE **REVENUE** + OPTIMAL OPERATIONS **EFFICACY** + POSITIVE PATIENT **EXPERIENCE** = **FULL REVENUE POTENTIAL**

> When approached correctly, integration offers organizations an opportunity to build a next-generation revenue cycle that benefits the new entity and the community at large.

As the below graphic demonstrates, foundational elements of an effective integration approach include:



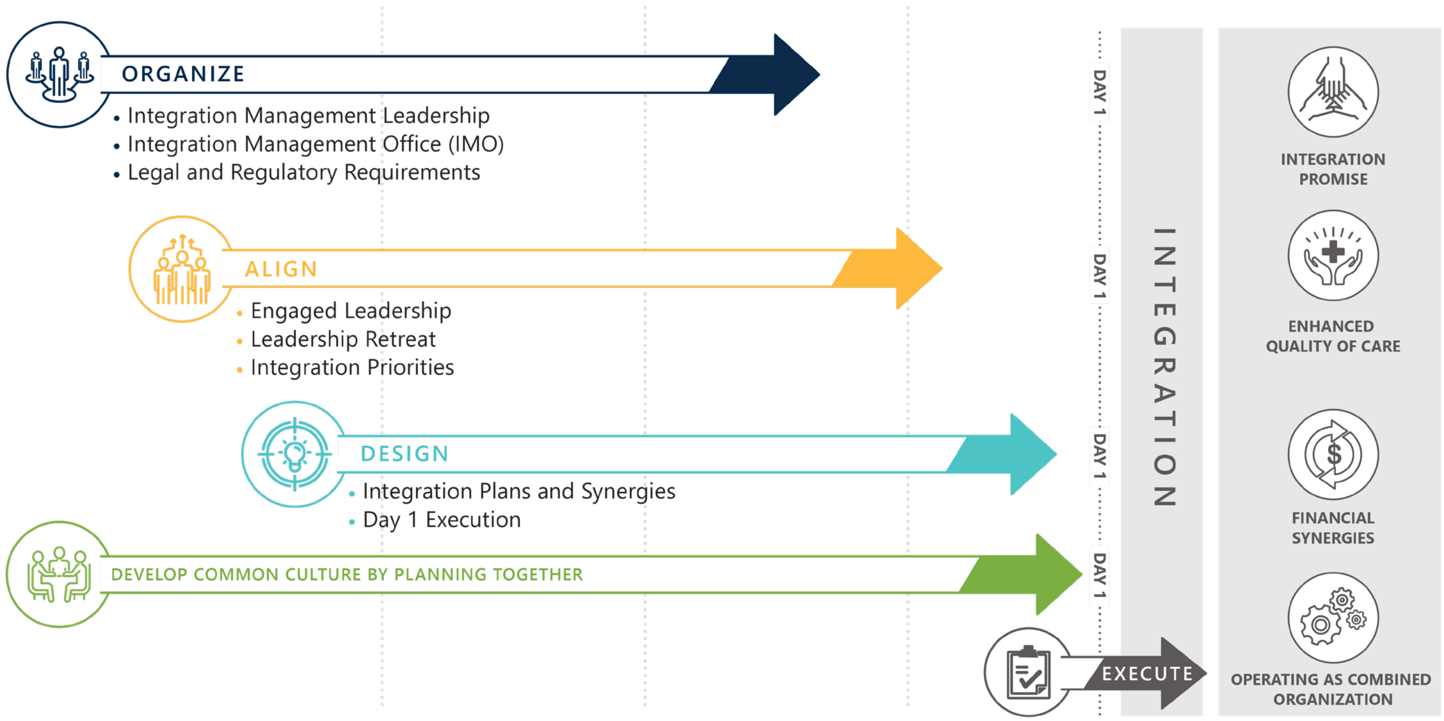
Early organized planning, initiated pre-close and support and guidance from an integration steering committee and an integration management office (IMO)

Committed leadership aligned around future vision, goals and priorities

Integration design teams, charged with designing, building and executing on priority initiatives to drive value realization

Intentional building of the new organization's collective operating culture through collaboration and stakeholder engagement

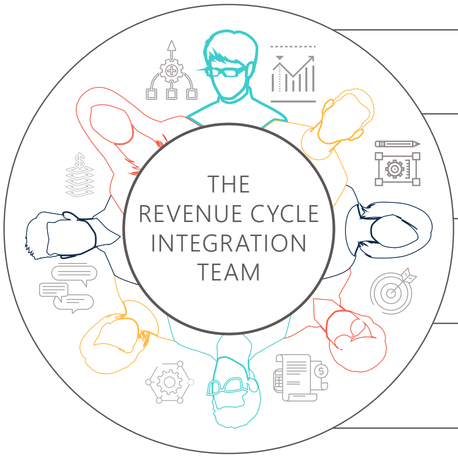
Organizations pursuing a merger/integration strategy, led by the approach below, will drive optimal financial benefits when they purposefully prioritize and include revenue cycle transformation in the integration planning and design.



For a more detailed description of the key elements and benefits of an effective merger integration planning approach, see "Can Hospital Mergers Deliver Real Value? The Answer Is Yes … if You Do It Right."

As organizations start the integration journey, an important first step is to charter an empowered revenue cycle integration team (RCIT), charged with envisioning and designing the future state revenue cycle operating model. Including constituents from each merging organization will foster engagement and help establish a culture of mutual and shared accountability.

THE RCIT SHOULD BE RESPONSIBLE FOR TRANSFORMATIVE TASKS, SUCH AS:



Crafting a future vision statement, guiding principles and strategic objectives.

Identifying and prioritizing leading practice convergence financial improvement opportunities.

Designing a revenue cycle operating model and proposed organizational structure, including both centralized/shared services and localized functions.

Defining key performance indicator (KPI) metrics that will be utilized to quantify value realization and define integration success.

Mergers and acquisitions are naturally disruptive to the normal course of business. It can be challenging for members of the RCIT to let go of current-state constructs when called to envision a compelling future state. One of the best ways to mitigate the tendency of constituents to stay anchored in their current sphere of influence is to encourage leaders to channel disruption into opportunity. This can be done by collaboratively designing a purposefully bold revenue cycle operating model that will achieve industry-leading practice goals, such as operational efficiency and effectiveness, optimized financial performance, and a best-in-class patient experience that spans the new enterprise.

Even in situations where there is an existing high-performing revenue cycle, the integration of a new entity into those processes provides an opportunity for purposeful revenue and patient experience efficacy.

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Once the overarching goals of the new revenue cycle operating model have been established and agreed to, specific tactics and strategies to achieve those goals should be identified and set into motion. Specific examples of aggressive revenue realization initiatives across the revenue cycle might include:

- Reducing revenue cycle rework to <1% (or conversely, achieving a 99% efficiency factor).
- Benchmarking individual hospital and physician group denial write-offs and bad debt expense, and establishing improvement targets to close any individual and global gaps to industry-leading practice.
- Assessing the current maturity level of documentation, coding, and charge capture/revenue reconciliation practices and processes across the continuum of care (ambulatory, acute care, and clinically integrated network) and developing a plan to synergistically spread existing—and close the gap on missing—leading practices.
- Designing a best-in-class financial clearance and pricing transparency shared service center.

In addition to specific initiatives focused on revenue optimization and value realization, new opportunities will present themselves naturally from the coming together of 2 or more organizations. Healthcare organizations that are most successful at true integration intentionally look and plan for convergence opportunities that leverage the synergies of the new organization. It is likely that each entity will have unique areas of expertise, and integration introduces the opportunity to leverage these existing "centers of excellence" to build a revenue cycle that is better than the sum of the merging parts. Below is a list of recommended strategies to accelerate the value realization process.

Design a revenue cycle operating model and organizational structure that builds upon the strengths that each constituent brings to the new organization's envisioned future state. Optimal performance requires both centralized shared services, accountable for high performance and support of both the individual and collective business unit(s), and maintenance of a localized presence/connection in the new operating model.

Realize measurable efficiencies through policy uniformity, resource pooling, knowledge sharing, workflow standardization and centralized deployment of education, training and payer updates, and related communications.

Consider reducing recruitment and real estate expenses through consolidation and/or implementation of a virtual workforce where applicable. Now that working virtually is more the norm than an exception, clearly define your virtual workforce program to gain a competitive edge.

Improve employee engagement and retention through implementation of career ladders, incented referral pipeline programs, and skills development/progression through a combination of internal resourcing and effective partnerships with academia (as available and applicable).

For more on a enabling a top-performing virtual workforce, see "What Makes a Revenue Cycle Virtual Workforce a Top Performer? 4 Critical Areas of Change."

As established above, embarking on this integration journey will often require substantive change enabled through the identified and prioritized revenue realization and convergence opportunities. Successful organizations define and monitor KPIs to measure the change initiatives to iterate and improve, as well as to promote and ensure accountability. Enterprise-wide KPIs will likely span the 3 broad categories noted earlier—operational efficiency, financial performance, and patient experience. The template on the following page is an example of a core starting point.

Metric/KPI*	Operational Efficiency	Financial Performance	Patient Engagement
Net Cash Collections	✓	✓	
Point of Service Patient Collections	✓	✓	✓
Gross and Net Days in Accounts Receivable	✓	✓	
Discharged Not Final Billed (DNFB) Days (Hospitals)	✓	✓	
Charge Lag Days (Physician Practices)	✓	✓	
Discharged Not Final Coded (DNFC) Days	✓	✓	
Clean Claim Rate	✓	✓	✓
Financial Clearance Rate	✓	✓	✓
Initial/Remittance Denial Rate	✓	✓	✓
Final Denial Write-Offs	✓	✓	
% Accounts Receivable Aged > 90 Days	✓	✓	✓
% Accounts Receivable Aged > 360 Days	✓	✓	✓
Bad Debt Expense	✓	✓	✓
Case Mix Index (CMI)	✓	✓	

** At both individual entity and health system rollup levels*

Planning for both intermediate and longer-term technology enablement and vendor management should occur in parallel with the aforementioned actions. Opportunities stretch beyond securing optimal volume pricing across the new health system to conducting system-wide vendor performance evaluations and exploring standardization and optimization efforts that will lead to enterprise-wide vendor rationalization. Additionally, this is a great time to evaluate existing outsourced services for potential internalization (and vice versa) to support maximum operational efficiency.

The pressures of shrinking margins and decreasing reimbursement rates are real, and past incremental approaches to revenue cycle performance improvement are not sufficient to achieve the rapid transformational change required for successful integrations. Employee engagement is essential, as this specific and strategic approach extends the opportunity for a stake in the future of the new organization to each team member. It will require staying true to a clear, challenging vision driven by actionable guiding principles and transparency across the stakeholders. All constituents should be empowered to take a meaningful, active role in the process through an inclusive governance structure that launches intra-entity teamwork and begins to create the next-generation revenue cycle. Organizations that create a culture of engagement realize the synergistic benefits of the newly combined entities faster. A shared journey promotes accountability for creating a transformed level of revenue cycle high performance and gives constituents an ability to be involved in the creation of their future state. The result is an organization that uses its human capital and resources to their fullest potential, benefitting both the new entity and the community at large.

Sources

1. Irving Levin Associates' Health Care Services Acquisition Reports, 2021.

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