OR Manager Inc

OR Manager
Vol. 29 No. 4
April 2013

OR Business Performance

Better business performance is a critical competency

OR Business Performance is a new series intended to help OR managers and directors improve the success of their business.

Imagine that you were recently hired as director of perioperative services at a 450-bed hospital with 18 operating rooms. Now, 6 months into your tenure, it's time for your first performance review.

When you walk into the conference room, you are surprised to see not only the CNO but also the CEO, the COO, and the CFO.

The CEO kicks off the review by saying there are issues in the OR that the hospital needs to address immediately. The CFO explains that for the hospital to remain in business, there must be a 20% increase in annual case volume and a 10% decrease in overall operating expenses. Your heart skips a beat. The CNO emphasizes that quality must improve to comply with new federal payment policies. Finally, the COO adds that increasing surgeon satisfaction is critical to the hospital's long-term strategy.

All eyes turn to you. "How can you help us achieve these goals?" the CEO asks.

An unusual scenario?

Is this scenario unusual? Increasingly, the answer is no. The OR has always been critical to the financial success of a hospital. In better-performing facilities, surgical services accounts for more than two-thirds of gross revenue and up to 60% of the operating margin. Economic pressures have made OR volume growth and cost control more important than ever. New payment models are turning patient satisfaction and outcomes into important revenue drivers. Improving the business performance of perioperative services is now a critical competency of OR management.

How can you simultaneously grow volume, cut costs, improve outcomes, and enhance surgeon satisfaction?

First, don't panic. Resist the urge to slash spending and dictate staff changes. Instead, you should gradually transform the OR's organization, culture, and operations.

Identify opportunities

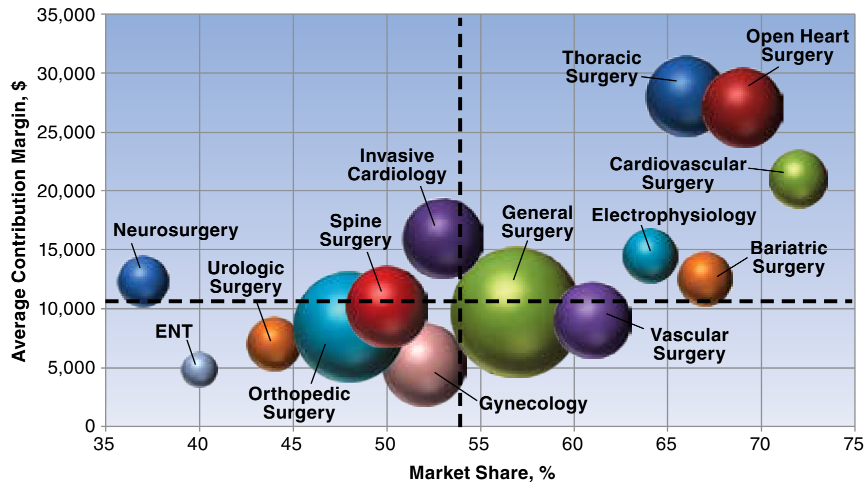
Start by taking a clear look at department performance. Work with the finance department and the planning office to answer key questions:

1. Where is the OR making or losing money?

Ask the decision support team to provide a breakdown of OR profit and loss by specialty and by surgeon. (The team should be able to generate these numbers using charge and expense data within the invoice system.) This profitability analysis will help you identify service lines that are driving the department's financial results.

2. How can the OR grow revenue?
Analyze your state's publicly available discharge data to calculate your hospital's market share by service line. Profitable service lines with room for market growth are the best opportunities for boosting revenue. For example, in the bubble chart, the best revenue growth opportunities are in neurosurgery and invasive cardiology. Spine surgery and orthopedic surgery also have potential for profitable growth.

3. What are the costs per procedure?
Analyze invoices and reports to identify supply, labor, and equipment costs per encounter. Then roll up encounter-level data to obtain the average cost per procedure type. For example, the data might show that the average cost of performing a rotator cuff repair in your OR is $2,500. How does that cost compare to the Medicare payment? ORs need to get costs below Medicare reimbursement levels to survive.



The upper left quadrant shows higher-profit services with room for growth. The horizontal axis represents service line market share. (Use public data to calculate your hospital's share of area discharges.) The vertical axis represents service line contribution margin (net service line revenue minus contractual allowances and expenses). Bubble size represents annual discharges. Dashed lines denote median market share and contribution margin.
Source: Surgical Directions.

4. How efficient is the OR?
Improvements in efficiency will not only reduce costs but also increase revenue. Use the OR's clinical information systems to pull data on utilization, cancellations, start times, and turnover times. In most systems, this data can be reported from the scheduling module. Once you have the numbers, see the chart for comparisons.

A critical question: Does your current OR utilization represent wasted capacity?

For now, just do simple analyses to answer basic questions. A rough outline of your OR's cost and profitability structure will help identify opportunities for improvement.

Keep in mind that none of these improvements can be accomplished alone. You need cooperation and leadership from key OR stakeholders.

Marshal support

How do you get stakeholders to work together on OR performance improvement? Leading hospitals have achieved strong collaboration by creating a Surgical Services Executive Committee (SSEC).

The SSEC, a multidisciplinary board of directors, includes representatives from surgery, anesthesia, nursing, hospital administration, and ancillary departments.

The group aims to optimize the OR's operational, financial, and strategic performance.

An SSEC is an effective approach because as a committee of the hospital rather than the medical staff, it is able to focus on the overall performance of the OR. And because it includes clinicians, business managers, and hospital leaders, the SSEC addresses problems from every angle:

- Cost control. OR costs are determined by complex factors, including block schedule models, staffing, inventory systems, and surgeon supply preferences. A cost-control effort requires multidisciplinary cooperation.
- Efficiency improvement. Efficiency metrics are strongly affected by preoperative

processes. Anesthesiologists, nurses, and surgeons must work together to minimize cancellations and improve on-time start rates.

- Revenue enhancement. Growing surgical volume requires a strategic focus. The administration needs to lead a collaborative effort to build the OR around surgeon service.

The strength of this governance model is that the committee has the authority to enforce its decisions. Successful SSECs are able to overcome obstacles to make the ORs more efficient, more in tune with surgeons, more aligned with the market, and more profitable. (For more on OR governance, see the January 2013 OR Manager.)

OR performance benchmarks

Performance metric	Benchmark
Block time utilization	75% - 85%
Same-day cancellations	< 1%
On-time starts	> 90%
Turnover time (outpatient)	≤ 20 min
Turnover time (inpatient)	≤ 30 min
Capacity (annual cases/OR)	1,075

Source: Surgical Directions client database.

Assemble the team

Developing an SSEC is a step-by-step process. To get support from hospital executives, explain how an SSEC is key to achieving the OR's goals.

Include active physicians who are respected for their clinical skills. Most surgeons and anesthesiologists will welcome the chance to improve their work environment.

Prepare a dashboard

Prepare for the first meeting by developing an OR performance dashboard report. Use the data you gathered and include efficiency breakdowns by surgeon. A comprehensive dashboard will help focus the SSEC on the core needs of the department. It will eventually be instrumental in educating OR staff on critical performance goals.

Coming up

The next column will describe how to work with the SSEC to plan and implement change. The first priority will be to tackle a problem that bogs down many ORs—low utilization. Learn how to work with SSEC leaders to design a block scheduling system that will increase volume and improve the cost structure while boosting surgeon satisfaction. ❖

This column is written by the perioperative services experts at Surgical Directions (www.surgicaldirections.com) to offer advice on how to grow OR revenue, control costs, and increase department profitability.

Reference

New Reality. New Choices. Ninth Annual National Business Group on Health/Watson Wyatt Survey 2004. National Business Group on Health and Watson Wyatt Worldwide. www.watsonwyatt.com/us/pubs/insider/2004_04.asp

Have a question on the OR revenue cycle?

Keith Siddel will respond to questions in the column. Send your questions to editor@ormanager.com

You can also reach Siddel at ksiddel@hrmlc.com.