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The Liberty Medical Group

UTD AUTHOR(S): Fallon D. Wallace, Keith Herl and William (Bill) Howard

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American College of Healthcare Executives
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The Liberty Medical Group

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Fallon Wallace

Keith Herl

Bill Howard

Jhalak Ahuja

Team from the University of Texas at Dallas

Executive Summary

Dr. Richard Townsend has recently been appointed to the role of CEO of Liberty Medical Foundation (LMF) in the midst of a significant strategic and fiscal crisis. LMF includes both the Liberty Medical Plan (Insurance Plan) and the Liberty Medical Group (Physician led delivery system). As the first pre-paid HMO in Pennsylvania, LMF has a strong 60-year tradition of providing high-quality healthcare at a low price to patients and employers. LMF has traditionally focused their strategy on price differentiation; providing affordable, physician-centered, high quality healthcare services by focusing on operation efficiency and institutionalized processes. This resulted in the view of non-LMF patients that their services were of lower quality, but LMF patients traditionally regarded the quality of care highly. Medical staff also appreciated the organizational structure as it removed the burden of administrative duties and allowed physicians to practice quality autonomous medicine and also enjoy a high quality of life.

However, in the mid-1990's market and regulatory forces had begun to erode LMF's strategic pricing advantage. The result was a dramatic fall in operating revenue and significantly decreased satisfaction reported by patients and system physicians. Formerly, LMF stood out among competitors using the fee-for-service model as one of the best low-cost options available. However, economic factors in the early 90's led to a proliferation of low-cost options which neutralized LMF's pricing advantages, even making them among the most expensive. The competitive environment also began to further restrict patient access and place greater burdens on physicians thereby reducing both groups' satisfaction levels.

Dr. Townsend, understanding that a bold decision must be made to safeguard the future of the organization, is planning on proposing two divergent options to the LMF Board of Directors tomorrow. The first option would be to lower rates to regain the strategic pricing advantage that the organization built its success upon. This strategy will involve significantly lowering costs by restricting processes and reducing labor costs which would include salary freezes and layoffs. The strategy is risky as they might not succeed, and in the process lose a large number of patients and physicians. The second strategy is to shift the organization's culture away from operational efficiency and toward providing the highest quality of service and care while charging a premium for these services. The higher costs to the patient could then be put toward increasing quality. This strategy would represent a major shift in organizational focus and could fail if they cannot achieve superiority over competition or if the patients decide that they are not willing to pay more for better service.

In reality, it's not likely that either plan will work on its own. LMF will soon fail unless decisive and bold measures are taken. If the board implements only the cost strategy, there is a great risk that another organization can undercut them, thus neutralizing this strategy. If the board implements only the service and quality differentiation strategy, they are likely to fail. This strategy will take years to manifest and, in the meantime, the company will fold under a $200 million annual loss. We recommend that Dr. Townsend combine both strategies into a two-pronged attack consisting of short-term and long-term plans. The short-term strategy will require immediate 15% targeted cuts in order to keep Liberty operational. New sources of revenue must be developed; lucrative niche service lines, such as orthopedic implant revisions and interventional cardiac catheterization, should be identified and developed. The groundwork will be laid for the long-term strategy of transforming organizational culture toward a quality and service strategy by emphasizing "Patients First."

Problem Statement

The entrance of for-profit HMOs and their aggressive cost containment undercut LMF's 12- 15% long-held price advantage. In addition, LMF lost $200 million in 1997 and 1998 and experienced a decline in patient satisfaction. Changes in the healthcare market have forced LMF to evaluate its current model and determine a strategy to regain a competitive advantage. Regardless of the strategy chosen, the success of implementation is dependent upon the adherence of the staff which will be a challenging task given the staff's decreasing satisfaction.

Problem Analysis

LMF is currently experiencing multiple challenges internally and externally that must be addressed immediately to avoid being forced out of the healthcare market by the competitive pressures of its business rivals. The major internal challenges include the $200 million loss in 1997 and 1998 along with the declining satisfaction of its staff and patients. The substantial loss due to external competition and internal operations is unsustainable and requires an instantaneous solution to rebound and become profitable again. Selecting the appropriate strategy to address the financial issues along with continuous monitoring and improvement are needed to prevent the disastrous losses of the past from recurring in the future.

Physicians' dissatisfaction is a problem that began under the leadership of the previous CEO but has continued to decline. One of the decisions made by the previous CEO was changing service delivery from being provided only by the physicians to a team-based model which included services being provided by nurse practitioners, physical therapists, health educators and support staff. This new system was met with rejection, as the physicians were not receptive to the decrease in their utilization since they were accustomed to providing all medical care in the past. The second major decision under the leadership of the previous CEO was a change in the compensation structure that is a very emotionally charged topic for employees. In support of a strategy to lower costs while maintaining quality, the physicians were given the options to work an additional half-day for the same salary or accept a proportionately reduced salary. Currently, physicians are salaried the first four years of employment then elected by peers to receive company stock if considered a high performer. While the physicians have accepted this compensation, they still remember the previous compensation structure and the upset it caused. Because physicians have not been included in decision making, they feel their opinions are not valued and the effects decisions have on how they provide services to patients is not considered. The relationship between the executive and medical staffs is further strained because the executives feel the physicians do not fully understand the challenges of the organization since the office and supporting staff operations are managed by LMF and not the physicians. In a private practice, physicians manage these operations but LMF physicians choose LMF as an employer to avoid this responsibility.

Another internal challenge is the physicians' relationships with other staff members. The nurses and other medical staff do not have relationships with the physicians and do not feel respected. The way the system is designed makes it difficult to build physician-medical staff relationships because the medical staff members are rotated through the nine facilities based on need. After a strategy to address LMF's current issues is selected, the most difficult challenge will be implementation. In order to effectively execute changes and to successfully accomplish new goals within the organization, physician dissatisfaction must be addressed and cooperative relationships built between the executive and medical staffs.

External problems are also challenges LMF's strategy must consider. Because HMOs are a form of pre-paid health insurance similar to LMF's model, the company is being compared to HMOs and perceived to have the same unattractive restrictions. Liberty Medical Plan is a non-profit insurance company that utilizes a physician-centered approach to care that allows the physicians to determine patient treatment without pre-approval from an insurance company. In contrast, LMF’s competitors are for profit HMOs who use the gatekeeper model of care requiring pre-approval from an insurance company for specific treatments. This restrictive model of care has decreased physician morale and patient satisfaction throughout the healthcare market. Competitors have used the HMO model to eliminate LMF’s low-cost competitive advantage by lowering their costs by 12-15%. Although changes in the healthcare environment and competitors’ strategies are beyond LMF’s control, the executive team has to determine the best option for regaining a competitive advantage while adjusting to the changing conditions of the market.

Patient dissatisfaction stems from the institutionalized and impersonal care model LMF utilizes. Patients do not have an assigned primary care physician and could be seen by different physicians each time an appointment is scheduled unless a particular physician is requested or the patient is chronically ill and has frequent appointments. Patients want to be under the care of one physician and build a physician-patient relationship. The physicians avoid this relationship so they are not obligated to be on call and can have consistent working hours knowing a patient will be seen by any available physician at the time care is needed. The scheduling process is also a frustration point as appointments are scheduled for the most ill patients first. Same day appointments are rarely available and a patient considered low on the priority scale may have a lengthy wait for an appointment. Advice nurses are available for patients whose condition is not considered severe to provide self-treatment options and avoid an unnecessary physician visit to keep the company’s costs reasonable. This use of triage and home care treatment is viewed by patients as another example of the uncaring or inability of LMF to provide the same quality of care of other providers although the company’s quality outcomes are often superior to its competitors. The perceived reputation in the community has been a long-standing problem as

LMF has been considered one size fits all, substandard and a provider of care for patients who cannot afford private insurance. There are also care “horror stories” that contribute to the unfavorable perception of care provided by LMF physicians. LMF cannot change events or perceptions of the past but continuously increasing quality and ensuring superior quality outcomes will help build a positive reputation for the future.

The problems LMF is currently experiencing should be prioritized as follows: financial loss, staff satisfaction, institutionalized care, and negative reputation. The first priority and most troubling problem is the $200 million loss in two consecutive years. If LMF continues to have a loss of this caliber, the company will be forced out of the market in a short period of time. Next, staff satisfaction has to be increased to engage them in the strategy development process and gain their commitment to the implementation of the strategy. Following staff commitment, the institutionalized care model should be transformed to a personalized model that will increase quality and resolve the last problem on the list, the need for a positive reputation.

Solutions Analysis

Dr. Townsend presents two solutions to the problems that face LMF. The first solution would be to lower rates to regain the price advantage they once held for so long. This would be done by adopting similar restrictive authorization processes used by the for-profit organizations along with salary freezes and layoffs. The second option would focus on shifting the perception of LMF from a low quality, impersonal mindset to a personalized quality that justifies an increase in premiums.

Solution 1 Pros:

This solution is equal to current competitors’ objectives to offer services at low costs, and the lower rates for patients would allow LMF to retain their current member base and possibly acquire new members. Because this solution is similar to their for-profit competitors, they go with the concept their competitors were adopting. The lower costs initiative would follow the same concept that LMF has followed since its existence and the cost reduction aspect of this strategy would help reduce costs to put a dent in their $200 million loss from the previous two years.

Solution 1 Cons:

One of the flaws of the lower rates strategy is the single focus of cutting costs because other competitors can undercut LMF's costs and prevent the company from obtaining the low rates competitive advantage. While lowering rates for the members is enticing, it would ruffle more feathers in the process and would not generate revenue to cover their $200 million loss. Members may see that they are paying a lower cost, but the restrictive access to their doctors would negate the price differentiation they are receiving. The cost of losing physician autonomy would remove the main reasons physicians enjoy working at LMF. This would almost certainly create a rift between management and physicians which would cause some physicians to walk away from LMF. The other factor that could hurt the relationship between management and physicians would be the salary freezes and layoffs. While this would cut costs which could be reviewed as a strong possibility, it would ultimately cause individuals to rebel against the change, and if Townsend does not get a core group of physicians to help be the change agents, the cohesion that once existed would be lost for good

Solution 2 Pros:

Implementing this solution would allow LMF liberty to change the perception of impersonal practice, and evidence has shown that members will be more satisfied with seeing a physician they have personally chosen. The biggest asset of this solution is the gain of a high quality perception. According to standards, LMF is a high-quality organization, but the perception is the opposite, and this solution would help shift the perception to high quality.

Solution 2 Cons:

Any new initiative comes with risk and this solution is no different. While LMF will become a more personalized organization, they will do so by raising prices for its customers in order to generate revenue to cover their loss. This increase in price will go against the 60-year tradition LMF has lived by, thus members and employers would be reluctant to pay these premiums because their perception of low quality has not had significant time to shift to a high quality mindset. This solution is also not feasible because the loss of customers by increasing premiums will negate the increase in revenue gained by customers willing to pay the new prices.

Suggestions

The situation that Dr. Townsend has inherited will require immediate and drastic changes that must be handled with a strong sense of urgency. Neither the lower rates nor the quality-focused strategies proposed are realistically going to create the results needed immediately. Realistically, LMF must find ways to reduce cost and increase revenue in order to make it to the next year, while building the foundation for a long-term strategy of quality and service differentiation. The keys to success are a strong sense of urgency and complete transparency to build a sense of inclusion among stakeholders and gain commitment to the new strategy. Short-term strategies are used as a foundation for long-term strategies that require years to be fully implemented.

Short-Term Strategy

Due to the dire financial situation, Dr. Townsend must make difficult strategic choices that will have a strong, immediate impact on the organization. It is time for Liberty Medical

Group to fail or succeed, and the first step towards success will be to organize an Executive Strategic Management Team, ideally made up of C-level executives, physician leaders, and service line administrators who will immediately be briefed of the strategy and held accountable for its implementation. Therefore, it will be important that he garner as much support as possible for the new strategies by getting a core group of system leaders involved early. It will be their duty to clearly communicate the new strategy to their respective teams and departments as well as helping Townsend identify areas of strengths and opportunities when looking at growth areas or financial cuts. With buy-in from these essential contributors, the strategic decisions will have an increased chance of being implemented much more effectively.

The short-term strategy requires immediate, but targeted cuts of at least 15% within 60 days. For this task, an organization chart would be helpful to identify the leaders of each service line and areas that may be under/overstaffed. The leaders of each service line will identify opportunities for cuts based on data. Instead of implementing wage freezes across the company and upset the entire organization, strategic layoffs will be made that will result in less frustration. Fifty-five percent of LMF physicians are specialists with very lush salaries consuming a high percentage of the company's costs. Reducing just three specialists can save almost a million dollars. Staff and operating costs will be reduced utilizing data that would have been useful if provided including physician productivity, physician/service line volume and revenue, physician satisfaction rates determined by the patients, company profit/loss statements, detailed patient and staff satisfaction rating of the organization, Google analytics, and predictive modeling. As staff and operations are identified for cuts, the new culture of "Patients First" will be emphasized to reduce rejection as each staff member's goal should be to provide the best care possible to each patient. Specific, measurable, actionable, realistic, and timely (SMART) goals will display visible progress toward the completion of tasks. Examples of SMART goals include increasing staff satisfaction by 10% in one year, increase patient satisfaction by 5% in one year, layoff 3% of staff within 60 days, and cut supply chain cost by 1% within 60 days.

However, simple cost cutting will not be enough to turn around Liberty's financial situation. The Executive Strategic Management Team must rapidly identify opportunities to greatly increase revenue and work aggressively to target particular markets that may be lucrative. Certain high-end niche service lines such as orthopedic implant revision, interventional cardiac procedures, neuromuscular diseases, and chronic disease management can be very profitable and should immediately be capitalized on to rapidly inject revenue into the organization.

The structure of Liberty also puts them in position to take advantage of bundled payments to maximize reimbursements. With targeted service lines, Liberty can propose bundled payments for certain diagnostic related groups, particularly lucrative in cardiac surgery and joint replacement. This is because Liberty is structured to effectively manage patients in the post-acute ambulatory setting. Care can be efficiently coordinated among the Liberty group primary care physicians and specialists that will keep costs low while raising the quality and profitability for the organization.

Included in the short-term strategy is the laying of the foundation for the long-term quality and service differentiation strategy. "Patients First" will be the slogan for the company's transformation and focal point of the cultural change throughout the entire organization of the next several years. There should not be an immediate expectation of realizing culture change quickly as culture changes takes years and requires continuous enforcement which makes it a part of the long term strategy. To immediately broadcast the new slogan and remind the staff of the need to put patients first, low cost buttons will be created that can be pinned on staff attire to be visible to patients when staff are working in a LMF facility or by current or prospective patients/staff when traveling throughout the community. Although unwanted cost cuts are necessary, the buttons will show the entire organization is continuing to work as a unit to provide services that will be of high quality as defined by the patient. The development of clinical teams/pods that work together on a consistent basis instead of the current rotating staff model will begin to form within six months and will also be part of the long-term strategy because of the lengthy implementation timeline. The “Patients First” buttons and initial forming of the clinical teams are the short-term aspects of the long-term strategy that is detailed in the following section.

Long-Term Strategy

The foundation of the long-term strategy should be affected immediately and with a strong sense of urgency. The tactic of differentiation through quality and service necessitates a great deal of time to manifest as it will require a shift in strategic inertia and organizational culture. Furthermore, the strategy will only be effective if quality and service are perceived by the consumer to be of premium value. At the risk of losing the trust and business of their patients, it’s important that LMF implement a premium pricing strategy slowly and carefully, if at all.

While currently working at a $200 million loss, LMF has no other choice than to operate with a meager marketing budget. After recent cost-cutting measures resulting in layoffs, spending on media would not likely be well received by the public and staff. However, there are a number of low-cost, yet effective, strategies available to liberty in 2014. Marketing decisions should be strategic, targeted and based on all data that’s available. Data, which was not provided in the case, can reveal specific areas of opportunity that can help shape marketing plans and assist in prioritizing strategies. Although quality can be internally measured through data and metrics, in this case quality will also be defined by the discernments of the customer. It is essential for LMF to understand how their patients define quality and also express quality in terms that can be measured.

An excellent starting point would be deeply analyzing patient satisfaction scores and searching for patterns that might reveal areas of frustration among patients. This data can be stratified down to individual service line or physician and should be examined at every level possible. The same can be done with employee satisfaction scores to identify ways to integrate the marketing plan with moral and culture-boosting activities. Focus groups and patient committees are also low cost ways to gather "voice of the customer" data. With this information Liberty can communicate specific messages to specific populations prioritizing areas that have been identified as needs. The message of "Patients First" should be marketed first internally to the employees. Leadership will meet with formal and informal leaders to discuss the strategy and techniques to spread the new message via word of mouth. Employee emails, forums and town hall meeting can be utilized to communicate the new strategy and garner a new sense of pride around the new message. "Patients First" buttons, t-shirts, banners, stickers, and other visible, wearable articles will be distributed and encouraged to wear daily.

Externally there are a number of low-cost methods to deliver the "Patients First" philosophy to the public. In 2014, LMF should leverage social media (including Facebook, Twitter, etc.) to the fullest extent with little or no cost. Google and other web analytics should be examined to target specific elements of social media for maximum effect and efficiency. LMF should work together with local media outlets to disseminate positive messages to the public which could take the form of interviews, testimonials, human-interest stories, and overall positive promotion of Liberty. Liberty should also strive to be as involved and visible in the public as possible. Holding and sponsoring community events and volunteering programs can be effective ways to create positive public relations while benefiting the community. “Patients First” will be attached to all future marketing materials, logos, signage, signatures, etc. and will serve as the justification for all strategic decisions

One of LMF’s initial strategies is to implement a primary care model where each patient will have one primary care physician (PCP) designated for his/her care. Physicians will align with clinical staff to create “treatment pods,” or teams that work together on a consistent basis with a specific population of patients. As these teams gain experience together, they will enhance their efficiency and quality of care due to continuity. The treatment pods will naturally build better communication, respect, quality and efficiency through the team approach. Having a consistent primary physician and team will enable patients to build better relationships and feel that they receive better care and value thus supporting a long-term premium pricing strategy. Longitudinal care provided by a consistent team of providers will help manage chronic diseases and complicated comorbidities. Mid-level staff should be properly utilized to assist with this model. When patients need same-day or next-day appointments but their PCP is unavailable, they can be offered an appointment with a Physician Assistant or Nurse Practitioner so they have their needs met quickly.

LMF must also clearly define and communicate performance goals and metrics to the clinical staff. With expectations for treatments teams clearly communicated, there is reduced margin for error and greater uniformity of care that will benefit everyone. A sense of accountability and competition among treatment pods can be nurtured as metric-related performance can be posted publicly for view. Furthermore, a portion of physician compensation can be tied into quality and performance metrics in the form of a quality bonus. Physicians can receive additional payment based on quality and performance, rather than the traditional bonuses based on volume which emphasize quantity over quality, further supporting the belief that patients do come first.

Through effective implementation of both the long and short-term strategies, LMF can stop the financial hemorrhage with cost-cutting measures and increased quality of care and service without drastically increasing costs. After approximately twenty-four to thirty-six months, Liberty should have begun to differentiate their organization based on quality and service and can therefore begin to raise prices incrementally. However, it's vital to do so strategically while finding ways to keep costs low to increase profit margins. There are a number of techniques and tools available to LMF including a change in the financial portfolio to reduce fund allocations to staff, supply chain, and other wasteful areas while increasing allocations to quality and process improvements, employee morale, community involvement and other strategy supporting initiatives.

LMF should continue to make evidence-based, data-driven decisions for the organization. By continuously analyzing data such as profit and loss statements, and other financial data available, they can continue to make sound economic decisions and keep their finger on the pulse of the organizational financial health. The organization should also continue to listen to the voice of the customer by monitoring patient and employee satisfaction scores, web analytics, and other forms of patient feedback. By this time, Liberty will have gathered a great deal of data on the quality and performance metrics of their clinical staff. Providers that have adopted the "Patients First" attitude and have performed measurably well should be rewarded and recognized but those that have failed to assimilate and perform well should be coached and, if necessary, let go. Maintaining a balanced scorecard will keep the organization in check with organizational goals.

Liberty should also seek ways to make the organization more lean and efficient. The quality department should look for opportunities to implement Lean Six Sigma projects. Processes should be reexamined to find better ways to do things. Hiring consultants can be prohibitively expensive, so Liberty should utilize experts from within their own organization to champion projects even on the most basic level. Supply chain management presents another opportunity to increase efficiency as well as utilizing group purchasing organizations to negotiate optimal prices. As new clinics are built and old ones are renovated, design efficiency should be considered to help clinicians work as effectively as possible.

In 2014 there are a number of technological innovations that can be utilized by LMF to save money and make operations much more efficient. Liberty can also expand into Personal Health Records or Patient Portals to better educate their patients on their own health and diseases, facilitate communication, and ease some operational tasks such as scheduling. To assist in HR and recruiting tasks, LMF could benefit greatly from Candidate Management Systems to facilitate hiring of talent (specifically Primary Care Physicians for preventive care), stay within EEOC guidelines, and utilize workforce analytics. Lastly, LMF can begin to utilize telehealth technologies to allow greater access to care, remotely monitor patients with chronic diseases, and treat minor illness that do not require an office visit.