

## Recovering from Revenue Shortfalls in Surgical Services

By Carol Wesley

### The Current Landscape of Hospitals & Health Systems

In recent years, hospitals and health systems have faced an array of difficulties that show no signs of slowing down. According to Deloitte's 2023 Outlook for Health Care, hospitals and health systems experienced consistent negative operating margins in 2022, caused by high operational costs and decreased volumes. Low operating margins and revenue shortfalls continue to be a challenge into 2023 due to the continued impact of the Covid-19 pandemic, site-of-care shifts, continuing high costs including increasing labor costs, increasing regulatory requirements, and a rapidly changing healthcare landscape (AHA, 2023). Providing cost-effective quality care efficiently under these circumstances is a challenge. Merely increasing volume may no longer help relieve the pressure on profit margins, and the industry's transition from volume-to value-based reimbursement models could lead to a further hindrance on margins.

### The Importance of Surgical Services

Cost-cutting measures alone are not sufficient to address today's revenue shortfalls. It requires due diligence to assess any opportunities in current revenue streams as well. Surgical Services, which generates substantial revenue, particularly from elective and specialty-based procedures often represents one of the largest drivers of a hospital's overall financial performance making it a great place to start. Operating margins can vary significantly within surgical services depending on the type of procedures performed, such as elective or emergency surgeries. Elective surgeries often have a higher operating margin due to the ability to plan ahead and schedule in a timely manner, while emergency surgeries may have lower margins due to the unpredictability of their timing and cost (Best, et al, 2020) so understanding this variability and how it affects the overall margin will be important as you proceed through the assessment. Movement towards value-based care models also increases the importance of surgical services efficiency to reduce costs while continuing to improve outcomes to be successful in this new environment.

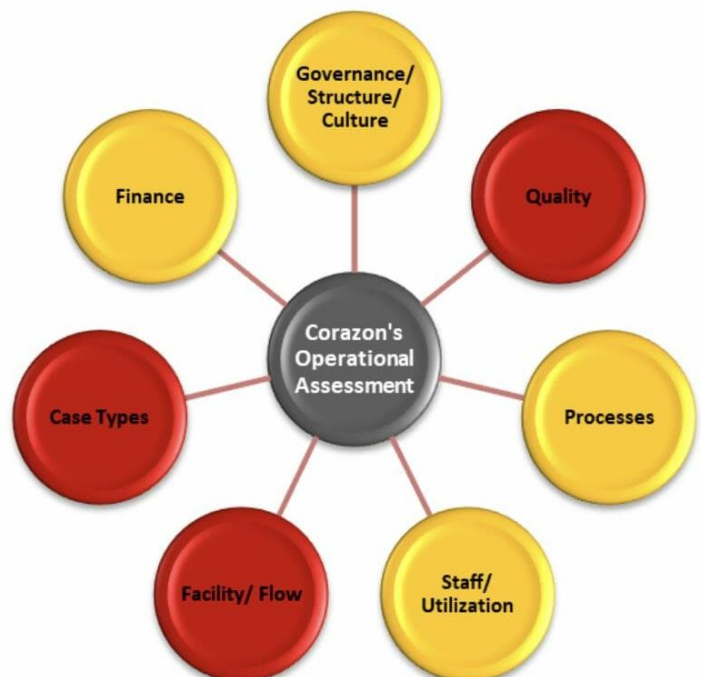
### Addressing Inefficiencies & Boosting Revenue

Surgical Services play a critical role in hospitals achieving financial stability and profitability. This one department can contribute up to **60% percent of the hospital's operating margin, accounting for two-thirds of the total revenue, and approximately 40% percent of total expenses.**

Addressing inefficiencies and root problems in operations and processes can boost top-line revenue. Improving the efficiency of surgical services is crucial in the current healthcare environment. To best position the organization for success in 2023 and beyond, hospitals should be focusing on initiatives that will increase efficiency, reduce costs and grow revenue through streamlining processes, removing waste in the system, utilizing technology, and preparing for continued growth.

### Operational Assessment & Process Improvement

As an organization strives to decrease costs and be more efficient, an operational assessment conducted by an outside agency can aid in identification of inefficiencies and opportunities for improvement. Establishing a fundamental operational groundwork to address core problems and inefficiencies results in the development of data-driven process improvement plan that aligns with both short- and long-term organizational goals. To evaluate the performance of a surgical services department, [Corazon](#) utilizes a seven-point operational assessment, which aids in optimizing throughput, improving resource utilization, and identifying opportunities for process, performance and financial improvement.



This comprehensive operational assessment examines the following:

- Governance and Organizational Structure
- Quality (Reporting and Communication)
- Workflow and Work Process
- Staffing and Utilization
- Facility (Flow, Room Variability)
- Finances

Focusing on operational opportunities that yield the desired net impact allows for the effective alignment of resources and processes to ultimately achieve financial improvement in the surgical services revenue stream. Such improvements are possible when a comprehensive, structured process for comparing a variety of relevant metrics to diagnose problems and measure success has been adopted. It is essential to implement data-driven benchmarks for efficiency and cost and define what contributes to success or failure in meeting those benchmarks. Although standard metrics are commonly monitored throughout the healthcare facility, specific metrics are required to determine operating room (OR) efficiency.

### Optimizing Operating Room Efficiency

Key areas [Corazon](#) commonly identifies for improvement in operational assessments include the development of process and workflow improvements, efficient scheduling procedures, and performing cases in the right site of care.

Process and workflow enhancements contribute to the overall efficiency of the department. Variabilities in workflow, such as first-case starts and room turnover, not only impact patients but impact surgeons and staff as well. Focusing on improving team communication can aid in overall improvements in staff productivity. Metrics pertinent to the optimization of OR performance are diverse, but by adopting an approach that balances all aspects of process and workflow metrics, a sustainable impact on efficiency can be achieved.

While process and workflow improvements contribute to overall efficiency, an efficient schedule represents the most challenging but impactful driver. When scheduling is done efficiently, the time from when the patient is referred to when the surgery is completed is minimized. This can result in significant revenue impact to the hospital, as every minute of wasted OR time represents approximately ninety dollars of lost revenue, and every minute of OR staff time costs the organization at least sixty-three dollars, adjusted for inflation, based on a 2016 estimate from the Medical Group Management Association (Agrawal, 2016). Improvements in efficiency can help increase patient satisfaction by reducing wait times, as well as help manage patient flow for the surgical team (Park, et al, 2020). And efficient scheduling can reduce administrative workload in both the hospital and the surgeon's office.

Block Scheduling, which is often employed for managing the complexity of operating room utilization can present challenges to achieving scheduling efficiency. Does the department's block model account for increasing or decreasing utilization, or bridge the gap between surgeon demand and available support staffing? The development of an efficient block time scheduling system should include the following basic components and metrics:

- a **minimum block length** with longer blocks that allow for higher utilization per hour and therefore minimize inefficiencies,
- a **utilization threshold** of at least 75% utilization to maintain the block,
- **room flexibility** by keeping approximately 20% as open time for urgent and emergent cases,
- voluntary and specialty-specific **block release protocols**, and
- **individual block ownership**, not specialty or group ownership.

Addressing process, workflow, and scheduling can significantly enhance efficiency. It is also important to ensure care is being provided in the right setting of care, whether that is the Hospital Operating Room or the Ambulatory Surgery Center (ASC). This is essential to fully capitalize revenue opportunity through maximization of contribution margin. Organizations that focus efforts on directing all surgical cases to the hospital OR due to higher reimbursements, may actually see lower contribution margins due to the much higher cost of providing surgical care in the hospital setting.

ASCs have both financial and practical benefits over the traditional hospital OR setting which appeal to payors and consumers. While previous shifts from the inpatient to outpatient setting have been predominantly driven by advances in technology and minimally invasive techniques, current trends are driven by purchasers; primarily payers, consumers, regulators, and physicians (Advisory Board, 2022). Organizations that lack a strong outpatient and ambulatory strategy to capitalize on this movement are subject to potential negative financial consequences.

The savings from direct costs that a healthcare organization can achieve by scheduling procedures in the correct site of service and moving appropriate surgical procedures from the hospital OR to an ambulatory surgical center can vary based on the type of procedure, the device and equipment used, and the group of practitioners. Generally, organizations can expect to save up to fifty percent in direct costs (Healthcare Finance Online, 2021). Shifting lower acuity cases to the ASC presents a revenue growth opportunity through increasing hospital OR availability for higher-acuity cases which bring higher contribution margins.

As organizations continue to face financial challenges, administrators need to focus on ensuring surgical services are as productive and efficient as possible, no matter the

site of care. By implementing improvements and evidenced-best practices, efficiencies can be achieved, costs can be decreased, and successful efficiency in surgical services can yield the most impressive impact on the organization's bottom line. According to the Medical Group Management Association, for each percentage point of increased utilization, a single OR can deliver \$100,000 plus in revenue to a hospital or surgery center (Agrawal, 2016).

Conducting an assessment to analyze and understand the current operational opportunities is a great way to get a snapshot of how the department is performing, and help leaders prioritize decisions that are most beneficial to the organization as a whole. Without that clear picture, you may be challenged knowing where to start to identify the efficiency opportunities with the potential for the highest revenue yield.

Assess, Optimize, and Transform: Elevating Surgical Services with Corazon's Expert Guidance and Workflow Redesign.

If your organization is underperforming against expected productivity or failing to meet desired performance goals an operational assessment is certainly key to developing a thorough performance improvement plan to get back on the right track. However, for those organizations who are already achieving high-quality and sound financial performance an operations assessment can help you move to the next level through identification of:

- Opportunities for strategic growth
- Ways to maximize capacity to allow for expansion of services
- Additional contribution margin maximization opportunities

Corazon knows that surgical services are the greatest source of revenue within a hospital/ system and has helped clients achieve higher margins by optimizing surgical services.

[Contact Corazon](#) for an onsite assessment and workflow redesign which can not only improve efficiency and lead to cost reduction but can assist in improving quality.

And for more information on improving operating room efficiency and operations, listen to Corazon's webinar, "[Optimizing Efficiency & Workflow: Surgical Services.](#)"

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Carol Wesley is a Vice President at Corazon, Inc. a national leader in program development for the Heart, Vascular, Neuroscience, Spine, and Orthopedic service lines, offering services in Consulting, Recruitment, Interim Management, and Accreditation. To learn more, visit [www.corazoninc.com](http://www.corazoninc.com) or call 412-364-8200. To reach the author, email [cwesley@corazoninc.com](mailto:cwesley@corazoninc.com).