

HEALTHCARE COST CONTAINMENT

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Sustainable Cost Management Requires the Right Processes and Tools

By Samuel Baker and Robert Guthrie

Finance leaders should understand the four essential characteristics of tracking and reporting systems that support the “stickiness” of cost management efforts.

Many hospitals and health systems have experienced the frustration of cost management initiatives that stall or reverse over time despite achieving initial success. To truly ingrain cost management as part of the organization's culture, hospital leaders need to ensure that they have the systems and tools in place to make it an integral part of both annual processes and daily operations.

Cost management initiatives typically are targeted through the financial planning process. As such, cost management processes and tools should have capabilities to support initial cost assessment, target-setting, planning, and implementation efforts. Perhaps more significantly, they also should provide a framework for maintaining and building upon those efforts through routine tracking and reporting of key performance measures long after the tough cost management decisions have been made.

The following are four essential characteristics of effective cost management tracking and reporting.



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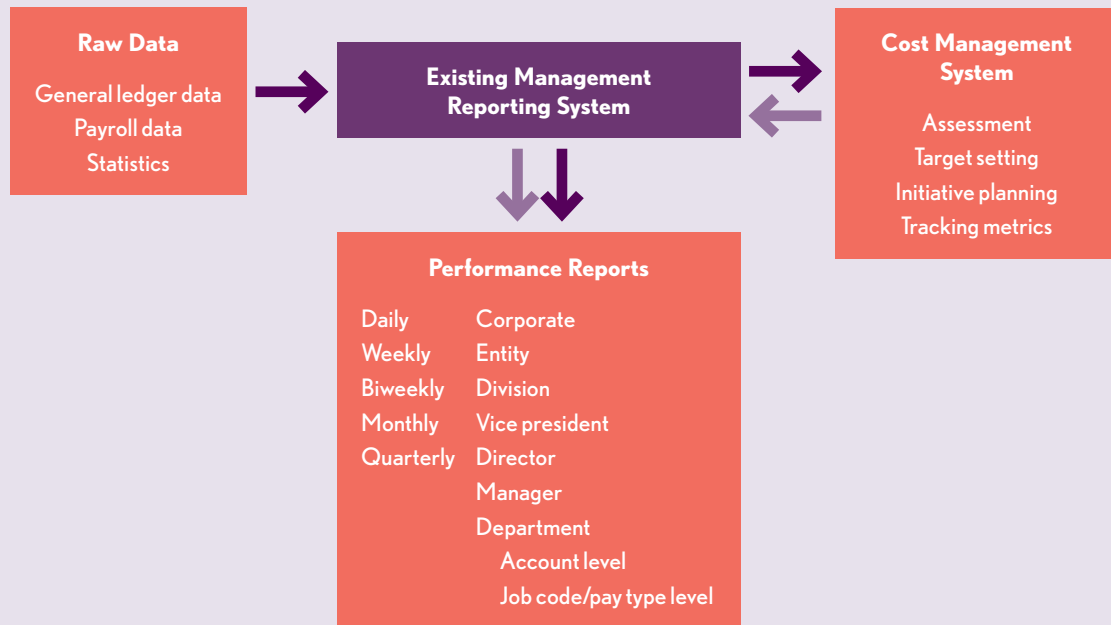
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A Sample Tracking and Reporting Framework

Effective cost management requires the integration of cost management tools with existing budgeting and reporting systems. Cost management software should be able to automatically pull key data from existing reporting systems and generate customized performance reports at preset intervals.



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Plans are integrated with existing systems. The organization's established budgeting and reporting systems should work hand-in-hand with cost management tools. This eliminates the extra time and potential for error introduced through duplicate entry. Data entered into one system should automatically populate others as needed.

Cost management targets defined in the organization's financial and strategic cost management plans, as entered into the cost management software, should automatically integrate with its existing budgeting system. For example, if a cost management initiative calls for a \$5 million reduction in operating expenses, that amount should automatically be deducted from the next year's operating budget in the budgeting system.

Reporting is integrated with existing systems. Similarly, cost management software should be able to automatically extract key data from the organization's existing

reporting systems. In this way, the tool uses real-time data that are already routinely entered by staff at the operational level. This allows for efficient reporting of performance to defined labor cost and productivity metrics and nonlabor metrics (as have been identified in the planning phase).

Examples of key labor metrics that might be monitored include worked hours per unit of service; paid hours per unit of service; salary rates per unit; and percentage of overtime, agency, and education hours. Examples of key nonlabor metrics include supply expense per unit, drug expense per unit, and purchased service costs.

Initiative tracking is automatically generated. Integrated and automated capabilities allow for seamless and routine initiative tracking. Reporting data enable examination of management compliance with the anticipated savings plan. To guarantee accuracy and to cross-check data pulled from various

sources, the cost management tool should automatically perform data validation and reconciliation.

The tool should then match current operating data against projected savings from the cost management plan and identify any gaps. For example, the system can readily help department managers and other leaders pinpoint if the actual data reflect anticipated reductions in expenses compared with targeted savings.

Initiative reporting is conducted at multiple levels. Lastly, the cost management tool should be designed to produce customized initiative tracking reports at preset intervals based on how that information is to be used and disseminated. This makes the data actionable. Depending on the organization and the urgency of its cost management efforts, hospital and health system leaders may want performance to be monitored against desired goals on a daily, biweekly, monthly, or quarterly basis.

Reports appropriate for various levels of management should be automatically generated at the job code or account level, departmental level, facility level, or organizationwide. For example, department managers would benefit from reviewing the status reports at a more granular level, such as by individual job code or general ledger account number. Senior executives may need the reports produced at a more consolidated level, such as by department, region, facility, or an overall organizational level.

At the core of each of these functionalities is the cost management tool's ability to communicate and integrate with other

processes and tools that staff members are accustomed to using on a daily basis. Having integrated systems creates a natural bridge between cost management initiatives on the finance side and daily operating activities. Once part of an organization's DNA, those initiatives will be far less likely to diminish over time.

In combination, these elements are critical to supporting the "stickiness" of cost management efforts. Healthcare leaders can ensure that targeted cuts are being implemented, feel confident that the appropriate checks and balances are in place to hold stakeholders accountable for goals, and identify opportunities for further

improvement. As a result, organizations can effectively move beyond periodic cost reduction to continuous cost management. +

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