

## How East Tennessee Children's Hospital uncovered the cost information hospital leaders crave



It's no secret that America's hospitals and health systems are facing historic levels of financial pressure as the cost of care rises and reimbursements continue to shrink. While the nation's pediatric hospitals have been partially immune to some of these challenges, recent declines in operating margins suggest some of the operational stresses experienced by adult acute care hospitals in recent years may be slipping into the pediatric realm.

In fiscal 2017, median operating margins for stand-alone children's hospitals declined sharply to 4.5 percent down from 6.1 percent the previous year, according to a 2018 report from [Fitch Ratings](#). The slip suggests some children's hospitals could be susceptible to volume declines as payers become more price conscious, especially in markets where value-based reimbursements are on the rise. The emergence of this trend compounds upon the traditional challenges faced by pediatric hospitals, which include vulnerability to government funding cuts due to high levels of Medicaid exposure.

Recently Caryn Hawthorne, vice president of finance and CFO for East Tennessee Children's Hospital in Knoxville, and Kim Smith, ETCH's business analytics director, spoke with *Becker's Hospital Review* about how their organization is working to overcome operational challenges by getting a better handle on costs.

*Note: Responses have been edited for length and clarity.*

**Question: What would you say are the biggest challenges for pediatric hospitals today? More specifically, what are some unique challenges facing East Tennessee Children's?**

**Caryn Hawthorne:** In the pediatric world, the biggest challenge is almost always the payer mix. We tend to serve a very high Medicaid population, exceeding 60 percent. In turn, children's hospitals are increasingly dependent on philanthropy and federal and state supplemental dollars. Physician recruitment can be difficult in the subspecialty areas as well. Fewer and fewer physicians are going into pediatric subspecialties such as neurosurgery and cardiology.

East Tennessee Children's operates in a medium-sized market, which presents some challenges. The community is well served because we're here. However, because we are not in a large urban market, there is not enough demand for certain services such as transplants and/or cardiac surgery. We have to collaborate with organizations and physicians outside our market to ensure patients get the services we do not offer locally then return to their/our community where we can provide effective follow up and continued collaboration for their care.

**Q: What specific capabilities or processes has East Tennessee Children's adopted to drive down costs?**

**Kim Smith:** The health system has not had a cost accounting or decision support system. Analysis was thorough but more or less done manually. When we decided to make the commitment to understanding costs and how to impact them, the first thing we had to do was get a system in place to help us. We took care of that when we partnered with Strata Decision Technology in February 2019.

As important as it is to select a good system, it is just as important to make sure departments are engaged in the effort. We met with all departments and obtained insight in to their operations including their cost drivers. That helped the department leaders buy in to the process improvement. It gave them some ownership over the effort. We also worked with departments on charge capture and revenue reconciliation. Another thing we did that might be a little different is we put oversight and maintenance of the chagemaster in business analytics. Our charges are compliant, more accurate and reflect activity at the department level.

**Q: How have you worked to drive buy-in for this effort among the organization's executive leadership?**

**CH:** That has been the easy part. When I came to the organization, our leaders were starved for this kind of information and let me know they saw the initiative as a major organizational goal. Leaders like our COO have been very engaged. We just really needed better information to help make good, more timely decisions; we really didn't have to sell it. We're also able to better analyze our payer contracts. That's really something leadership values.

**Q: Any advice for other organizations working to improve the accuracy of their cost data?**

**KS:** I think you must have a technology system like Strata in place. We tried to do things manually for many years, and we just weren't accurate enough on cost. There has to be some kind of technology to support and expedite these efforts beyond manual processes in order to make good, real time decisions. And it has to be supported from the top. Everyone has to be held accountable. The directors of every department must be able to understand and defend their costs.

**CH:** It's critical to put the right team of people with the right expertise in place to support the effort. To get the most out of any analytics platform, you have to have a dedicated

team that really understands the technology and the organization's goals, and has the ability to educate others. And of course, you need support of senior leadership, which we absolutely had here.

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