

Hospitals: Cutting Costs without Cutting Staff

By John Ortiz, Tatum Healthcare

Virtually every industry is still feeling the pain of the recession – still cutting costs and making reductions in force or RIFs. Yet these cuts often fail to generate real bottom-line results. This situation is all too familiar to those in the healthcare industry – hospitals, in particular. In fact, the Bureau of Labor Statistics (BLS) recently recorded the second highest number of mass-layoffs in hospitals since 2000. It's a trend that clearly cannot continue without serious repercussions in the quality of care.

The story is the same for hospitals around the country. When finding themselves in financially dire straits, their knee-jerk reaction is to lay off staff. On the surface it makes sense. After all, labor is a hospital's number one expense – 40 to 50 percent of incurred costs. But the inevitable result after just a few months is an epidemic of inefficiency. Key functions are not performed, services degrade and patient complaints begin rising at a rapid rate.

To overcome dissatisfaction among patients, doctors and employees alike, hospital managers must resort to bringing in costly temporary or interim help.

AVOID A DOWNSIZING DISASTER

So how can your hospital address costs without compromising care? The solution begins with changing the way you look at cutting costs. Despite the strong temptation to lay off staff, a RIF should actually be the last option you consider. Instead, your priority should be improving efficiencies – establishing a formalized program of analyzing everything you do.

By spending the time defining what you do in every area of your operation, you will pinpoint those activities that are either inefficient or unnecessary. When you evaluate, redesign and enhance your processes, your labor costs will naturally come down, and you will do it in a way that preserves and even improves the delivery of service. It's an approach already being used by other industries that now focus a great deal of attention on operations, dissecting and monitoring each activity while assessing how to improve them. But the healthcare industry has yet to catch on to this approach.

The problem is this: hospitals know intuitively that they must monitor and manage their processes and delivery system, but they don't do it formally. For one thing, this type of undertaking is not easy, especially for hospitals with limited resources and reliance on long established policies and procedures. It requires detailed planning and an organized approach to continually enhancing processes.

Let's consider an example of the risk inherent in cutting staff. Imagine your hospital has been instructed to cut its workforce by 10 percent. You likely look first at reducing non-clinical positions, since clinical and service staffers are difficult to get and expensive. In the ER you might reduce admitting staff from five people down to three. Why? They are not highly skilled, not certified and don't require much training. But with only two people performing admitting, just imagine the impact on wait times and the ripple-effect on care. Eventually the erosion of service levels may impact the hospital's revenue as MDs and patients opt for other institutions for their care.

In another scenario you might eliminate people who transport patients to various departments. Without them, nurses must transport patients – very expensive members of your staff. A nurse who was dealing with eight patients may now have ten. While he or she is transporting a patient, one of their other patients starts to have a negative episode. If the nurse is not there to help, what might the results be?

START NOW – DEFINE WHAT YOU DO

These are just a few of the potential risks involved with a premature RIF. Before you cut staff, look closely at your operations, but don't wait for your situation to degrade financially. Act now by establishing a process improvement initiative. The first step is simply to define what you do in detail: review each of your processes and identify all of the activities they involve.

Once you have defined your current process, your next priority is to analyze those activities and determine which ones are being performed efficiently, which are being performed inefficiently, and which activities don't need to

be done at all. Using tools like Activity Based Management and Six Sigma, you can create a much clearer picture of these activities and improve your operations across the board.

If you need to dramatically improve efficiency, this process should be enterprise mandated rather than isolated in certain areas of the hospital's operations. It must be driven by the board and CEO.

Small process improvement projects here and there may certainly provide quick improvements, but they often don't translate into significant bottom line results.

Your organization must examine how things work from top to bottom, throughout the organization. After all, many inefficiencies actually stem from handoffs from one department to another. It's those handoffs that are frequently not analyzed, and that is where the greatest opportunities for improvement reside.

One hospital found such an opportunity through an analysis of its admitting process. It was simply this: no fax machine in the admitting department. To receive orders from physicians, eight or nine times a day, staff would take an elevator up four floors, pull off orders from the nursing unit's fax machine, and then go back downstairs to pre-register patients – a massive inefficiency that was easily remedied. When you take a close look, you're likely to find small inefficiencies like these throughout your operations, and they add up to big losses in time, money and quality of care.

BECOME CUSTOMER-CENTRIC

A critical success factor in improving processes is broadening your focus. Instead of viewing operations from a bottom-line only perspective, view them from your customer's perspective. For instance, some hospitals

complain about crowded ER conditions and spend money expanding. Such steps would be unnecessary if they simply looked at how they could serve patients differently.

Without judgment, consider what patients experience from the time they enter your hospital through the time care is complete. This level of insight can reveal the greatest opportunities for improvement.

Consider a typical emergency room visit. If you've ever been a patient, you know it involves a significant investment of time. After sitting in a waiting room, you proceed to the ER, where you continue to wait for services. When service is finally provided, you wait more to be discharged. Of the hours you likely spent in the ER, how much of that time was actually spent receiving services? In the time you occupied that ER room, couldn't several more patients have been helped?

Another common yet overlooked patient complaint is the requirement to re-register in every department. While hospitals do need to confirm patient identity at every step, they sometimes repeat admissions because their systems are not integrated. Even in hospitals that have integrated systems, procedures may be antiquated – for example, steps that were performed before automation became habitual continue even after automation is complete. This is the type of inefficiency that drives up the hospital's cost structure.

OBTAIN EXPERT ANALYSIS

The stark reality is that most organizations – both healthcare and non-healthcare – do not have the people with the necessary skills or capacity to do this type of analysis effectively. It requires a high-level of skill and, ideally, certification. After all, defining and enhancing what you do goes well beyond simply drawing a map of your processes. It requires rigor, and more and more hospitals are finding alternatives. If a hospital lacks expertise in areas like Activity Based Management or Six Sigma, one option is turning to an outside resource – an interim executive who can provide this level of expertise without adding a permanent executive to their staff. These leaders can garner significant results in a relatively short period of time with rapid, targeted analysis.

There are countless success stories of hospitals and healthcare organizations being able to cut costs without cutting staff (one example is provided in the sidebar). Whenever hospitals and other organizations step back and examine their processes, the savings and improvements to their bottom line are staggering. So before you become caught up in today's misplaced emphasis on staff cuts, take the time to look deeper. As you adapt to today's changing environment and look for new ways of doing business, remember that quality is not only free, it actually saves money. Your greatest opportunities for bottom line benefits and better care may well lie in improving the quality of your processes.

ABOUT THE AUTHOR

John Ortiz is a Partner in the Healthcare Consulting Practice of Tatum. He has 33 years of healthcare experience, specializing in business planning and improving organizational performance. Prior to joining Tatum, he spent 11 years in hospital and physician operations management with a Catholic healthcare system and 22 years in providing advisory services to hospitals, physician practices, health plans and governments in the U.S. and abroad.

CASE STUDY: LAKEVIEW CENTER

Lakeview Center – a behavioral health care, child protective and vocational services center in Florida – employs more than 2,800 individuals, has approximately \$150 million in annual revenue, and is an affiliate of Baptist Health Care. A few years ago, the center faced a potential revenue reduction due to problems with the Florida state budget and increased regulation. Instead of cutting personnel to cope with these financial stresses, Lakeview's leaders decided to look for other ways they could reduce costs and improve the business.

Lakeview relied on an ERP system that was outdated and lacked financial, HR, payroll and procurement functionality. Reporting within the system was difficult, and mining data was time consuming and almost impossible. Lakeview's leaders opted to switch to a Lawson ERP, but they lacked the expertise to fully carry out the system implementation and customize the features of the system to fit their business needs. They brought in Technisource to help with the implementation.

With Technisource's help, the Lakeview Lawson system provided improved reporting features such as data queries and user-defined fields, enhanced internal controls and security, process automation and drill around capabilities. In the old system, all Lakeview data was recorded in the general ledger – as much as 4,500 accounts in the chart. With the new Lawson sub-system functionality, the number of accounts in the GL was reduced to 444.

Overall, the system had significant improvements to the finance, HR, payroll, and procurement areas of the business. "Selecting Technisource was one of the best decisions we made," said Carol Duke, Lakeview's director of finance. "They knew Lawson inside and out, and understood and adapted to our business needs very quickly."



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