

## Continuous Cost Improvement: Drive Sustainable Savings Without Sacrificing Culture

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Health systems continue to prioritize lowering the cost of care as the waves of rising labor costs, volume volatility, and supply chain challenges persist. This time, hospital executives are coming to realize that establishing a [continuous cost improvement program](#) is key to improving margins for their organizations, but the question is how to integrate that broadly across an entire health system.

Cost reduction has gained a negative reputation within healthcare since it is often associated with staff cuts. Although cutting staff can provide temporal relief to an organizations' bottom line, it rarely provides sustainable results and introduces new challenges when there are not enough bodies to complete the work that needs to be done, especially in an industry where lives are at risk. Shifting healthcare professionals' perspective to view cost reduction as an ongoing opportunity to identify areas for improvement through collaboration with operational and clinical leaders will shift the stigma and allow for constructive efforts to take place that will benefit the organization in the long run.

Cost-saving programs can [no longer be the sole responsibility of the finance team](#) – they need to incorporate the individual operating departments and service lines. Historical messaging that implied each leader must take their fair share of a global labor reduction plan will not work, particularly with staffing shortages lingering in the industry. To be effective, the perception of the program must shift from one of top-down enforcement to bottom-up empowerment. Luckily, there are many hospital functions that can play an integral role in helping improve an organization's margins.

The best way for an organization to approach its financial journey is to understand that cost improvement is not a one-time fix, but an ongoing process that must be ingrained in its DNA. Support from the CEO, along with the rest of the leadership team, is crucial to integrate financial enhancement programs. Without senior leadership on board, the efforts will fizzle out, and no one will be held accountable. A holistic approach to cost improvement involves the entire organization and allows for clear visibility and maximum savings potential.

### Areas of opportunity

The Healthcare Financial Management Association (HFMA) recently [conducted a survey](#) with Strata Decision Technology that polled 185 healthcare finance, accounting, and revenue cycle executives. The survey revealed that although nearly 89 percent of participating healthcare

organizations have some type of cost reduction program in place, only 6% characterize their program as extremely effective. The good news is that there's a commonality among programs that reported successful cost improvement initiatives – a formal and ongoing process that is applied across the health system. When a system has the correct process in place, financial decisions become easier because advanced planning helps to avoid any major surprises down the road.

One of the keys to developing this kind of program is implementing technology that can help supply insight into an organization's financial health. Technology gives organizational leaders the ability to unlock the lakes of healthcare data that previously had little to no functionality, as many organizations have both the clinical and financial data they need to improve operations, but they have yet to integrate the IT systems that allow them to do so. Standardizing existing data and using it to perform analyses allows for comparison and identifying opportunities for improvement. This kind of operational benchmarking is a defining factor in cost reduction strategies because it allows healthcare organizations to reflect internally, as well as benchmark their performance against others.

## **Combating Rising Costs**

Contract labor costs are still on the rise, with the median cost for contract labor as a percentage of total labor expense approaching 6 percent. According to the survey, larger hospitals with more than 500 beds along with critical access and short-term acute care hospitals in the South, Northeast, and West have experienced the largest increases – likely because they see more patients and consequentially need more staff to manage the workload. As hospitals implement [cost reduction strategies](#), accounting for higher contract labor costs in the short term will help improve long-term results.

Successful programs also make a commitment to cost improvement and prioritize it as a regular process, rather than waiting for financial losses to be identified before initiating any changes. For example, one organization that has achieved millions in cost savings through its continuous improvement program found opportunities for financial improvement within its medication usage. Switching from brand name Cubicin (which treats Staph and skin infections) to its generic daptomycin significantly reduced expenses. In just nine months, the hospital saved \$1.2 million with this one alteration to its clinical supply practices. Looking for opportunities to make small adjustments like this can lead to greater long-term success than overwhelming staff with multiple major initiatives.

## **Setting teams up for success**

One of the struggles for many organizations when it comes to implementing cost-improvement initiatives is that they don't know where to start. However, there is a simple first step they should prioritize in order to succeed: identifying key areas of focus. Starting small and learning the cost reduction process allows organizations to experience the learning curve and can lead to smoother implementation for future initiatives.

Establishing a governance structure also serves as a guiding force to identify cost-savings and securing leadership to provide oversight helps determine who will take on certain roles, such as identifying cost reduction opportunities, prioritizing projects, and tracking results. Giving leaders

the ability to identify opportunities for improvement – and making sure they have a stake in it – will create an environment where innovative approaches to the table for consideration.

Maintaining a well-defined and consistent process will help health systems to create and sustain a successful cost-improvement program. In an environment of constant change, reflecting internally as well as using data from similar organizations can help create an environment of continuous and ongoing cost improvement, will enable hospitals to decrease spending while also supporting their efforts to provide high-quality patient care.