



REDUCING VARIATION: THE CURE FOR HEALTH CARE COST CHALLENGES

THE BOTTOM LINE

It is in the ability to identify and reduce variation at the clinical process level where we find hope in solving the health care cost conundrum.

All stakeholders – including outside consultants such as attorneys, accountants, IT and management specialists – need to understand the principles of statistical process control in the health care environment and how they improve quality and lower costs.

Failure to do so can lead to reshuffling of the “inner circle” for decision making, and those once in position to guide facilities through disruptive change may find themselves on the outside looking in.

THE CHANGING HEALTH CARE FINANCIAL ENVIRONMENT

The general consensus among health care experts is that Medicare reimbursements will continue to decline for the foreseeable future. Many facilities lose money on Medicare and Medicaid patients, and depend on private payers to generate revenues and profits. As private payers follow suit with federal programs, health care facilities may find themselves in a situation where they are losing money on each patient, and can't make it up on volume.

Many hospital executives respond with ongoing cuts to administrative costs: discontinuing nonessential services, new cafeteria contractors, cheaper disposable supplies, and sharing resources such as laundry facilities. Unfortunately, these savings are marginal at best, and will not cover anticipated revenue shortfalls.

Inevitably, the typical C-suite turns to cutting the work force as a way to reduce cost. But a hospital is a labor intensive operation, and needs staff to function effectively. A certain standard of care is needed and expected, and most facilities play a vital role in the economy of the communities they serve. If cutting administrative and personnel costs aren't the answer, health care executives have few realistic options available.

CURRENT DELIVERY MODELS DRIVE WASTEFUL BEHAVIORS

Today's fee-for-service reimbursement rewards health care providers for high volumes. The more you do, the more you are paid. But fee-for-service structures ultimately have a negative impact on quality – when volume is the priority, indications and outcomes are often de-emphasized.

Researchers estimate that up to 50% of patient care is “waste” – defined as inappropriate, unnecessary care that does not help the patient. And unnecessary care can have two effects, both bad: higher costs and unforeseen complications.

Most experts believe that future health care delivery models will reward systems that drive out waste and provide high-quality care at lower costs. But where will the ongoing cost reductions come from? The answer is in the massive amounts of variation in clinical care.

VARIATION IS THE CULPRIT

The health care cost problem is largely due to variation in care delivered at clinical level. For example, one clinician will treat a low-risk pneumonia patient with oral antibiotics as an outpatient. Another might treat that same patient in the intensive care unit with intravenous antibiotics, and extensive testing and breathing treatments. Both patients recover, but with massive differences in the cost of care.

MOST EXPERTS BELIEVE THAT FUTURE HEALTH CARE DELIVERY MODELS WILL REWARD SYSTEMS THAT DRIVE OUT WASTE AND PROVIDE HIGH-QUALITY CARE AT LOWER COSTS.

BUT WHERE WILL THE ONGOING COST REDUCTIONS COME FROM? THE ANSWER IS IN THE MASSIVE AMOUNTS OF VARIATION IN CLINICAL CARE.

CONTACT US.

For more information about changing health care delivery models or the Advanced Training Program, contact HORNE Healthcare Delivery Institute Director Thomas W. Prewitt, M.D., at tommy.prewitt@horne-llp.com.

The concept of variation in process came from Walter Shewhart in his work at Bell Labs in 1924. Shewhart, a physicist, engineer and statistician, observed different degrees of variation within manufacturing processes. Most of the variation was due to many “common causes” inherent in the process. But there was also unnecessary “special cause” variation, and removing it improved consistency and outcomes. This became the foundation for statistical process control.

Edwards Deming learned the theory of statistical process control from Shewhart and used the ideas to develop his own theory of management. Dr. Deming exported these concepts to Japan in 1950; where they were widely adopted to rebuild the Japanese economy after World War II, and became the basis of the Toyota production model.

Forward-thinking health care facilities and clinicians are now implementing quality improvement processes to minimize variation, improve quality, reduce costs, and most importantly...take control of their futures in a time of massive and disruptive change.

IS REDUCING VARIATION THE CURE?

The ability to identify and reduce variation at the clinical process level is where we find hope in solving the health care cost conundrum. The strategy depends on a culture of improvement, champions in leadership, collaboration between multidisciplinary teams, and using robust data analytics to identify and improve the programs that offer the greatest returns in quality and costs savings.

Fortunately there are education programs designed to teach health care executives, management, front-line clinicians and other stakeholders on theory and application of cost and quality control. One such program is the HORNE Healthcare Delivery Institute's Advanced Training Program. Modeled after and endorsed by Dr. Brent James's program at Intermountain Healthcare, the course offers improvement theory, metrics, policy, and leadership skills to change the view of “quality” health care.