Five Best Practices for Improving Hospitals' Financial Health

By Debra Wood, RN, contributor

October 22, 2010 - Hospitals, like businesses, must maintain a positive revenue stream, although their reasons for doing so may differ. And as they strive to improve the bottom line, they must not adversely affect quality of care.

"You need to generate profit, because you need to continually invest in the organization," said Mark Bogen, vice president of finance at South Nassau Communities Hospital in Oceanside, N.Y. "We don't have stockholders who are looking for a return on investment. Instead we have a community we owe the finest health care it is entitled to, and that takes a lot of money."

Mark Bogen considers revenue cycle management key to the financial success of an organization.

A positive margin allows hospitals to purchase new equipment and maintain adequate staffing to provide quality care. Yet these are difficult times for acute care facilities.

A 2009 research paper from Thomson Reuters Center for Healthcare Improvement reported that U.S. hospitals' total margin plunged to historic lows in the last half of 2008 but recovered to a 3.1 percent margin in the first quarter of 2009. However, 30 percent of hospitals were operating with negative margins.

Now, with the passage of health reform, potential changes as to how the government pays for services have raised concerns.

Marc Hafer, chief executive officer of Simpler Consulting in Pittsburgh, Pa., said that with so much uncertainty currently surrounding reimbursement policies, it is more important than ever for hospitals to operate efficiently and proactively.

"When you get down to pay-for-performance, which is coming down the road, you want to make sure you are doing things clinically adequate for the patient and against the measurement of the payors," said Tim Gould, principal and revenue cycle project leader at CSC Healthcare Group in Falls Church, Va., who suggests hospitals consider multiple solutions.

A look at some of these solutions yields five best practices that facilities can consider:

1. Manage the revenue cycle.

Bogen, at South Nassau, considers successfully managing the revenue cycle—from registration and obtaining copays at time of service to billing and collections—key to a hospital's financial health. He added that many times hospitals do not collect everything to which they are entitled, because they do not capture the service or at the intensity of which it was performed.

South Nassau Communities has appointed an assistant vice president of revenue cycle who meets with every department regularly to ensure every charge is captured and billed. Bogen estimates up to 80 percent of the hospital's revenue depends on proper documentation and coding.

"Clinical and revenue cycle cannot be separate any longer," Gould said, adding that many facilities are implementing integrated software, so clinical documentation flows to billing systems.

"Days equal dollars when the patient is discharged," Gould said. "Every day that is not coded and the bill not out is dollars [lost]."

2. Leverage technology to capture dollars.

Many hospitals have turned to electronic systems to help capture revenue, automating the procedure documentation and coding process with specialty-specific software, such as ProVation MD from ProVation Medical, part of Wolters Kluwer Health, to ensure compliant and comprehensive charge capture and coding, speed the billing and revenue cycle, and reduce administrative costs while helping to reconcile physician and facility charges. The physician enters the data at the point of care, eliminating the need to dictate operative or procedure reports, and the software processes it.

“The end result is a streamlined documentation and coding workflow that optimizes the efficiency of nurse, technologist and physician time, reduces costly transcription backlogs, and speeds and enhances the revenue cycle,” said Laura Gilbert, senior director of marketing communications, clinical solutions division, Wolters Kluwer Health. “Automation also enables hospitals to aggressively and confidently pursue maximum reimbursements for services rendered.”

Picis LYNX reported that its E/Point emergency department coding and charging software, which ties clinical documentation to financial operations, can increase emergency department revenue by an average of $30 per patient visit, according to Jeff Wajda, DO, MS, vice president of clinical services at LYNX Medical Systems, a Picis company.

CHRISTUS Health in Irving, Texas, increased net revenue across its 21 facilities within weeks by nearly $9 million with E/Point by improving charging accuracy, efficiency and compliance. And Riverside Regional Medical Center in Newport News, Va., experienced a $1.3 million increase in revenue during the first six months after E/Point went live.

3. Operate more efficiently.

Hafer cautions that while the flow of information is as important as the flow of patients, hospitals should not automate wasteful processes but rather work to improve them. With lean management techniques, he added, hospitals can do more with the same level of effort and same amount of people by eliminating waste and improving flow.

Hafer offered as an example Denver Health in Colorado, which was experiencing unnecessary delays discharging new moms and babies. Nurses, technicians and physicians participated in a rapid improvement event in 2008, identifying issues that delayed discharges and developing a process for decreasing lengths of stay.

Consequently, the OB department has increased the number of moms discharged by noon five fold and increased the number of patients transferred from labor and delivery to post partum in less than three hours from 40 percent to 85 percent. The unit raised its annual capacity from 3,800 deliveries to 4,350 deliveries, without adding staff or resources, and experienced an increase in revenue of more than $1.5 million.

“We are increasing patient satisfaction, the patient experience and the patient outcomes,” said Hafer, adding that clinicians appreciate being able to spend more of their time with patients.

Guidon Performance Solutions of Mesa, Ariz., also has helped hospitals apply lean Six Sigma strategies. Ron Wince, president and CEO of Guidon, said doing more with less has become more accepted, and using the collaborative approach—involving physicians, nurses and other staff—creates buy-in.

“Staff come up with their own solutions,” Wince said. “You can improve quality and safety while becoming more efficient.”

Guidon also has developed a strategy to provide more efficient staff scheduling based on historic data and predictive modeling, yielding average productivity gains of 18 to 30 percent.

And analytic tools, such as VHA PriceLYNX, allow hospitals to gain insight into their spending. VHA reports, on average, hospitals subscribing to the service are saving $2.6 million a year, and a large provider, NorthShore University HealthSystem, in Evanston, Ill., anticipates saving $5 million this year.

Telemedicine also offers opportunities for streamlining operations.

More than 100 hospitals across the country have contracted with Specialists On Call (SOC), a Joint Commissioned-accredited provider of emergency consultations that give hospitals 24/7 access to board-certified specialists via telemedicine. SOC serves more than 1,000 patients per month.

“SOC has developed an efficient model of care that helps hospitals and insurers lower on-call coverage costs an average of 60 percent more than traditional means,” said Joe Peterson, M.D., CEO of Specialists On Call. “Our affiliated specialists provide timely interventions using an evidence-based approach that not only benefits the community hospital without access to specialists, but also the in-house specialists by offering a better work-life balance with less on-call coverage.”

4. Strategically match services to population.

In addition to reining in costs and operating more efficiently, hospitals can improve margins by increasing revenue with the addition of more profitable service lines.

Hafer suggested hospitals conduct a strategic assessment of the population they serve and the services they provide and then work to create additional higher-margin business lines.

A Thomson Reuters 2009 white paper on outpatient business reported that “profitable hospitals drive success by generating increased revenue more than by reducing expenses.”

REACH3 of Verona, Wis., helps hospitals determine potential markets that will have the ability to pay for services through its customer relationship management program, and then reach out to them with targeted messages.

“We help identify who your best customers are and find more like them,” said James M. Schleck, executive director and partner of REACH3. “We use data to understand individuals’ needs, wants and references.”

5. Focus on quality and the patient experience.

Through it all, hospitals must not lose sight of the patient experience and delivery of quality care.

Many payors have stopped reimbursing for care associated with “never events,” and are investigating pay-for-performance models of reimbursement. Quality matters, so does patient satisfaction.

A 2007 paper from Press Ganey found that satisfied patients will return to the same hospital when they need additional care and will refer other patients to the facility. An internal analysis of patient satisfaction and hospital patient volume showed a nearly one-third increase in patient volume in hospitals with patient satisfaction in the 90th percentile and a decrease in patient volume of 17 percent among hospitals in the bottom 10th percentile. It also reports an association between patient satisfaction and profitability.

Hafer agreed about the importance of patient satisfaction and said hospitals following lean process improvements depend on patient input and finding value in the eye of the patient.

“What they are trying to do is build a relationship with the patient for life and for patients to be spreading good words about the relationship through the community,” Hafer said. “They are trying to build good will.”