

HealthCare Strategy: Focus on Improving Patient Care Without Increasing Cost

By
Willie L. Carter

There are 5700 hospitals in the U.S. of these approximately ten percent have embraced the strategy of improving patient care without increasing cost. How have they accomplished this? - By applying the tools of the Toyota Production System, commonly called Lean.

HealthCare Value

Healthcare value is a function of quality, cost and patient satisfaction. The lean methodology addresses each of these three components to rid hospitals of the enormous wastes and inefficiencies in their medical care delivery and administrative processes. Any process whether it involves treating patients or building widgets, is susceptible to the eight lean wastes that are roadblocks to optimizing a process: overproduction, waiting, transportation, inventory, motion, over-processing, defects and underutilization of human potential or talent.

Process design strategies in healthcare typically ignore creating value for the patient but are more focused on reducing operating expenses. Hospitals can achieve both of these objectives with lean process improvement because lean's focus is on removing waste, the activities that do not add value to the patient. Removal of these activities has a two-fold impact, increased patient satisfaction and reduced costs.

The Financial Impact of Improving Patient Satisfaction

If we are in agreement with the premise that quality patient care at lower cost leads to higher levels of patient satisfaction—then the next step is to build the business case for improving patient satisfaction or quality of care.

A study of 82 hospitals by John Harkey and Robert Vraciu (1992) found that one standard deviation change in the quality of healthcare score represented a 2% increase in operating margin. In another study of 15,000 patients in 51 Health Care of America (HCA) hospitals Eugene Nelson and others found that 17% to 27% of the variation in hospital profitability could be explained by the patient's perception of quality of care.

Looking at these studies we can extrapolate the bottom line impact patient satisfaction and quality of care represents. For example, if a hospital's operating margin is 6% and patient perception of quality of care can be improved by one standard deviation the operating margin can improve by 2%. An increase in operating margin from 6% to 8% results in a significant bottom line gain of millions of dollars.

Now that I've made the business case for lean process improvement in healthcare why is there so much resistance to applying the lean methodology to healthcare?

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The Fortitude to Change

Nothing changes in an organization; hospitals are no exception, unless the CEO has committed to driving the change. Many hospital CEOs admitted in an *USA Today* article that “the hospitals they run are rife with inefficiencies and they are optimistic that they could save billions of dollars with the help of business disciplines, such as lean manufacturing and Six Sigma...” Then why are they stuck in inertia? It is my assessment that these leaders don’t have the fortitude to change. Do you think the hospitals that have embraced lean principles like Denver Health could have saved \$27 million on supplies and increased productivity or that ThedaCare of Appleton, WI could have cut the cost of patient care 25% and saved an estimated \$20 million if their leaders did not have the fortitude to change?

To implement a lean initiative everyone from the CEO down to the lowest level staffer or employee must commit to minimizing or removing waste and creating value for the patient. Upper management must lead, middle managers must supervise and monitor results and all staff and employees must be empowered to improve their processes by driving out waste to enhance patient experience. Only this type of integrated effort can bring about improved patient care without increasing cost.

The Future of Healthcare

U.S. hospitals are in for a transformative awakening. They are facing the most sweeping change to health care since Medicare was enacted in the 1960s. The Patient Protection Act recently signed into law, fundamentally alters the healthcare landscape for all hospitals and medical care facilities. Demand for services will increase astronomically, as 30 to 40 million individuals become insured, this demand will spike in 2013 and 2014.

Improving throughput in hospitals and medical care facilities will become a challenge, calling for improving process efficiency and labor productivity, at a time when most hospitals are already at their capacity limits. Experts predict that the Emergency Rooms will be the hardest hit, where non-critical wait times may be as long as four hours. Improving productivity is even more meaningful with the predicted shortfalls in nurses and doctors.

Pricing pressures from insurance providers, plus new rules from Medicare and Medicaid are threatening the financial viability of for profit and non-profit healthcare institutions. The cost of poor quality will now have to be absorbed by the hospitals.

Although the Patient Protection Act doesn’t become fully effective until 2013 hospitals and other healthcare providers must act now to change their business model to one of value creation and high quality care to the patient. What if your clinic, laboratory, or hospital ran more efficiently and you could get back to the real reason for health care: helping patients? The same "lean" principles that have saved countless businesses enormous time, energy, and money can revolutionize health care operations.

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Conclusion

Lean process improvement isn't a new concept, but it is relatively new to health care. There are many skeptics who believe lean is a manufacturing strategy and is not suited for medical care. Like the manufacturing industry, hospitals are in fact, extraordinarily complex organizations, with thousands of interacting processes. Many aspects of the Toyota Production System and other lean tools can and do apply to medical care delivery processes.

Courageous, out-of-the-box thinking health care organizations such as the Mayo Clinic, Denver Health, ThedaCare, and Virginia Mason along with others, are leading the way by demonstrating that lean process improvement can reduce waste in health care with results mirroring other industries.

Lean principles hold the promise of reducing or eliminating wasteful activities, costs, and inefficiencies in health care, creating a system that provides value to patients and improving patient satisfaction.

The opinions expressed in this article are those of the author only and do not represent the views of the Techman/Kanata or of any of its directors, officers or employees. The author, Willie L. Carter, can be reached at wcarter@quantumassocinc.com or by phone at 847 919 6127

PS: Willie also suggests: What is ThedaCare? An inside look at Appleton, Wis, USA. health care system- <http://video.foxnews.com/v/3938571/what-is-thedacare>

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