Chapter VIII

Disseminating Cost Information through a Corporate Intranet: A Case Study and Lessons Learned

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INTRODUCTION

Changes in the healthcare business resulting from capitation and declining reimbursement have led to cost-cutting measures in all areas of healthcare delivery. In some cases, the failure of healthcare organizations to reduce costs can threaten their financial viability. The difficulty remains in identifying how and where to cut costs. In order to target cost-cutting measures, it is critical to get an accurate cost of chargeable items that take into account the activities and resources incurred in producing those chargeable items.

With the change in the market conditions resulting in managed care such as prospective payment system (PPS) and capitation contracts, the focus of managerial accounting has shifted from reporting, budgeting and planning to analysis of contracts and operations (Heshmat, 1997). Cost information is now an integral part of the decision making and is being used by department managers more than ever before (Eastaugh, 1987). However, this is not always the case because many cost information systems (CIS) were designed for reporting and they inadequately met the emerging demands for costs such as activity-based costing.

It has also been argued that one cost accounting system may not be sufficient for meeting the needs of an entire healthcare organization. Kaplan (1988) suggests that the purposes of the cost accounting systems are (i) inventory valuation, (ii) operation control of ongoing activities, and (iii) product costing information for decisions about the mix of products to be offered. Given that each of these purposes has different information requirements, Kaplan argues that one CIS may be insufficient (Kaplan, 1988). However,
CIS discussed in the literature indicate that creating a well-planned CIS can accomplish the various cost information needs of a healthcare organization (Chan, 1993; Hiromoto, 1988). Cost information is fundamental to assessing the profitability of the organization, its service lines, performance of the negotiated payer contracts, etc. (Kohli, Tan, Piontek, Ziege and Groot, 1999). As services are provided to patients, revenue is generated. The difference between the revenue and the costs associated with the revenue equate to the profitability of the organization, service line, procedure, etc. However, if accurate costs are not available, the profitability of the healthcare organization, a service line, or a procedure cannot be determined.

The enabler for the collection and processing of such data is the information system and the network that captures and processes financial and clinical data. For a health system that includes a number of healthcare organizations, the dissemination of such information can be a challenging task. Such are the challenges faced by Holy Cross Health System (HCHS). HCHS operates nine hospitals in five states, nine nursing homes and three residential facilities, each of whom are referred to as member organizations (MO).

In 1995, HCHS began a major initiative that resulted in the development of a cost management vision, an enhanced cost accounting methodology and the supporting information technology to support the new methodology. One of the primary objectives of this initiative was to develop accurate, timely, and relevant cost information that better addresses the health system’s current business issues than the existing cost information system, which was developed and implemented in the mid-1980s.

This chapter presents a case study of the challenges faced by HCHS and how it responded to them. Throughout the chapter, we will present both cost accounting and information technology perspectives. We believe that readers will find the business and cost accounting overview valuable as it presents the project from the users’ perspective. This also presents the backdrop against which the development for such an information system was warranted. Our experience suggests a compelling need for technologists to understand the ‘business’ of the users in order to develop an appropriate information system that the users will own and incorporate into their operations.

First, we present an overview of the cost management vision and the Web-enabled intranet infrastructure. The overview discusses the selection process, Web-enabled technology infrastructure, and the ensuing advantages resulting from the choice of the technology infrastructure. We then present the challenges, issues, and their resolution both in cost accounting and the technology areas. We conclude with the next steps in the HCHS project, future trends in managerial cost accounting, and conclusions from the case study.

OVERVIEW

This section will provide an overview of the business case driving the developments of the new cost accounting application, followed by an overview of the web-enabled intranet technology.

Business and Cost Accounting Overview

The costing process can be divided into four steps. Each step, listed below, is integral to producing accurate costs and affects the accuracy of the succeeding step(s).

a) Valuation: capturing accurate labor, supplies and other costs from the general ledger,
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