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5 Steps to Activity-Based Management





What is Activity Based Management?

Everyone is talking about Activity-Based Costing (ABC), but they are ignoring the elephant in the room, Activity-based Management (ABM). And without ABM you will never fully realize the value of ABC.

"Activity-based management is comprised of the actions that can be taken on a better informed basis by using the information that Activity-based Costing provides."

Activity-based management (ABM) is a method of identifying and evaluating activities that a business performs, using activity-based costing to carry out a value chain analysis that will improve strategic and operational decisions. It is also used for operational re-engineering initiatives that will support process improvement.

Activity-based management is comprised of the actions that can be taken on a better informed basis by using the information that Activity-based Costing provides. The end-goal is to achieve and maintain high quality standards at the lowest possible cost.

There are 5 core steps to establishing a foundation for ABM:

- **Decision Making Infrastructure.**
- **Operational Activities.**
- **Financial Calculations.**
- **Cost Drivers.**
- **Decisions and Actions.**

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5 Steps to Establishing a Foundation for ABM

Decision Making Infrastructure

1

The first step in implementing Activity Based Management (ABM) is to have a well-defined decision making infrastructure. It needs to go beyond the definition of a simple or limited Decision Support System (DSS) that may focus on financial or activity data. The definition must be that of a full Enterprise Decision Making program that will include Corporate Planning Systems (CPS), Executive Information Systems (EIS), Functional Decision Support Systems (FDSS), and Local Decision Support Systems (LDSS). This will also serve as your reference document to available data sources.

Operational Activities

2

The second step is narrow in scope as it will only focus on the activity volumes of your organization. Most hospitals can simply use their Charge Master as a basis for identifying and organizing activities. Keeping in mind that the Charge Master may not provide a 100% list of services provided, because not all services are billable. Some hospitals address this by including non-billable codes with zero dollar amounts to capture statistics. Others have sub-systems that collect this information. Regardless of methods used, the Charge Master remains as the most efficient starting point for gathering this information. However, depending on the health of your Charge Master, tracking time-based activities and number of supplies and drugs is the most precise path forward.

Financial Calculations

3

The primary focus of the third step is accomplished by calculating cost at the charge code level and then creating a link between cost results and operational activities. An additional part of this step for a hospital is to then assign the detailed cost results to patient encounters. Depending on the costing system being used there may be a need to perform additional steps that may require additional tools. Harris Affinity ADS, for example, is a complete Decision Support System solution that includes all of this functionality in a single source.

Cost Drivers

4

The fourth step focuses on the cost drivers for each activity. Cost drivers are defined as something that triggers a change in the cost of an activity. They are commonly used to assign overhead costs to specific services based on utilization. When there are changes in labor rates, supply costs, equipment depreciation amounts, time-per-task, etc. then the resulting cost rates will change accordingly.



Decisions and Actions

5

The fifth step is an action that is guided by a routine made up of five parts; Analyze, Decide, Implement, Monitor, and Follow-up. Information that is available following steps one thru four will provide insights to operational activities that can be analyzed. The analysis will guide the decision making process. Once a decision is made it can be implemented. The next part is critical, and often overlooked and undervalued by most organizations, and that is to monitor the results of the applied decision. Monitoring or measuring the results of the decision will be identified as favorable or unfavorable (most can be measured by scale) and provides the information necessary for follow-up decisions. From here the process repeats itself and becomes a routine.

Conclusion

ABC alone is not going to provide a path to success. The most important point to understand about ABC and ABM is that you need both together in order to be successful. ABC is like the blueprint and measuring instruments that a master carpenter uses to build a house but it is only when the carpenter's skills, knowledge and experience are applied to the process that the house becomes a reality. Harris Affinity ADS is the blueprint and measuring instruments that you will need to build your house.

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In today's current economic climate of supply chain challenges, labor and skills shortages along with rising inflation rates, it is more important than ever to have a strategy that goes beyond simple calculating and reporting. It requires a strategy that symbiotically connects the clinical, statistical, financial and operational data to actual operational processes and initiatives.

Harris Affinity Decision Support Solution (ADS)

At Harris Affinity we have decades of experiences successfully supporting this type of strategy. We do not dictate a self-serving one size fits all solution. We provide a pliable technology that will fit your needs in order to best serve you.

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