Ingredients for Smart Hospital Turnarounds

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ABSTRACT

This paper describes ingredients contributing to a successful top management led turnaround effort. Rather than slash and burn, the team achieved sustained process and productivity improvements through the installation of management tools and disciplined follow through. Management focus and attention to detail was complemented by selected consultant support. Benefits to date include revenue improvements, productivity gains exceeding 10%, and supply chain savings of over $2,000,000. The turnaround was supported by a seasoned consultant and resulted in an ROI of over 10:1 in the first year alone!

ABOUT THE AUTHORS

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EXECUTIVE SUMMARY

This paper describes ingredients contributing to a successful top management-led turnaround effort. Rather than slash and burn, the team achieved sustained process and productivity improvements through the installation of management tools and disciplined follow through.

- Management focus and attention to detail was critical.
- Process improvement sought BOTH savings and better patient care
- Ongoing performance management tools and coaching strengthened infrastructure.
- Selected consultant support was mobilized for developing appropriate targets, measurement tools, and process redesign proposals.

Benefits derived from these initiatives have contributed to improved performance which should result in the institution meeting required bond coverage ratios in the current year, and a projected return to profitability in the following year.

- Achievements include revenue rises, productivity gains exceeding 10%, and supply chain savings over $2,000,000.
- The turnaround was supported by a seasoned consultant and resulted in an ROI of over 10:1 in the first year alone!

Ingredients for Smart Hospital Turnarounds

This multifaceted project was undertaken by a 200 bed hospital after several successful pilots in departments showed that measuring productivity, facilitating action planning, enabling process improvement, and building real-time tools for performance management provided a high ROI. Initially the project was part of an ongoing plan to improve operational performance. During the project, rapidly deteriorating financial performance resulted in the hospital not meeting required bond covenant ratios and therefore increasing the urgency of change.

Eight ingredients drove cost savings, improved customer satisfaction and revenue gains. They fall into three general categories as shown below.

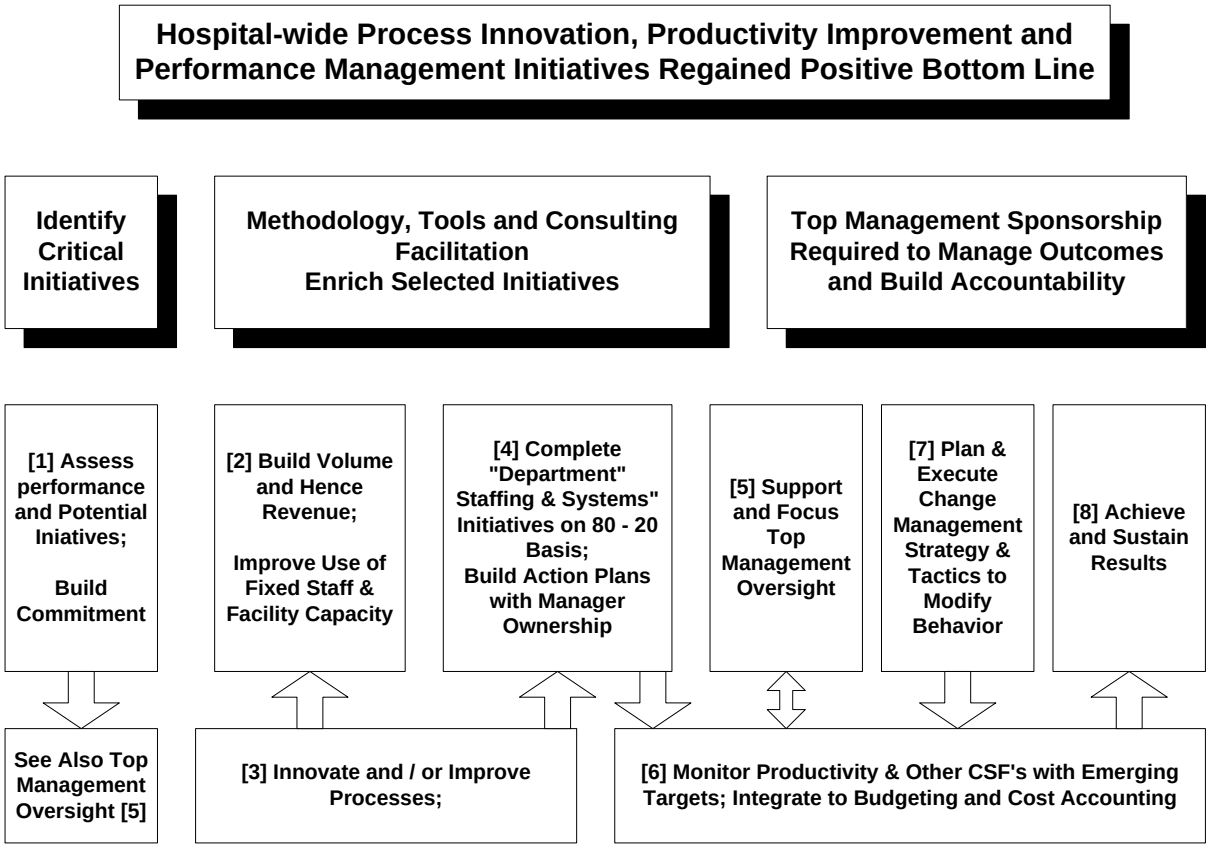

Figure 1: Overview of Process

[1] Assess Performance and Potential Initiatives; Build Commitment

A brief assessment phase led to the development of goals, priorities, and accountability. The purpose of this assessment was to identify those areas of improvement that would have the greatest impact in the shortest period of time. This assessment was particularly useful as the organization needed to quickly respond to declining volumes and reduced reimbursement.

The project began with intensive benchmarking, supplemented by interviews and observation, to critically assess current departmental and organizational processes. Variances from benchmarks were used to understand underlying causes and to quantify, potential opportunities. This assessment process allowed the consultant and the management team to prioritize opportunities so that high leverage changes could be made early in the project.

Priority initiatives were discussed by the management team leading to commitments and accountability. Establishing accountability to change behavior was stressed and a multi-million dollar savings target was accepted.

The assessment illustrated that improving processes and focusing management attention would be essential to building patient volumes and enhancing productivity. Increasing volume was critical to allow the hospital to leverage facilities and fixed staffing.

[2] Build Volume and Hence Revenue; Improve Utilization of Fixed Capacity

Given the size of the facility, volume was sub-optimal. Since over 50% of hospital's labor is "fixed", rising volume would largely be absorbed within existing capacity and productivity would correspondingly rise. Volume was constrained due to inefficient processes. For example, rescue runs were being diverted due to bottlenecks in the ED and systemically throughout the hospital. Constraints on certain types of beds, as well as narrow thinking within departmental silos,

contributed to the problem. Process innovation techniques therefore were important to address the root cause of these issues.

Various revenue cycle processes were also addressed. A Medical Records process assessment focused on reducing coding delays and thus accounts receivable. Other completed and current efforts include:

- Accelerating billing, cash collections,
- Optimizing and maintaining charge master,
- Integration of case management, insurance verification, approvals,
- Minimizing write-offs,
- More fully mobilizing capabilities of the new computer system, and
- Improving staff versatility and productivity.

[3] Innovate and / or Improve Processes

Process innovation and improvement was foundational to many of the selected initiatives. Systems engineering principles and tools moved managers and clinicians from incremental and defensive sub-optimization to broad, objective and creative breakthroughs.

We differentiated INNOVATION (designing all steps of cross-functional systems from start to finish arranged for RADICAL gains) from process "improvement" (which is more incremental) (Davenport, 1992). With these approaches we focused on process flows and enablers – breaking down functional silos. A typical approach typically included:

- Identifying processes for innovation during the assessment phase,
- Developing a process vision linked to the organization's strategy,
- Understanding existing processes (high level assessment),
- Mobilizing information systems capabilities as a major enabler, and

- Designing and prototyping new processes to align strategy, structure, style, systems, skills, staff, and super ordinate goals.

[4] Complete "Departmental" Staffing & Systems Initiatives on 80 - 20 Basis; Build Action Plans with Manager Ownership

Fifteen large departments representing close to 80% of labor expense were selected. The assessment had already highlighted opportunities for process improvements, policy changes, building manager and staff awareness of productivity gaps, and educating managers on how to "manage to volume".

Minimizing labor cost in departments requires tight but credible standards, timely information, monitoring tools, process improvement, and action planning. Senior executive participation is also critical. Executives need to nudge managers toward realistic targets, obtain agreement, and then monitor performance.

Our approach, built on the assessment, included:

- Working with managers to understand reasons for performance gaps.
- Developing credible fixed and variable workload standards with managers and their executives. Standards were expressed as RVU tied to the billing system wherever possible.
- Jointly creating process improvement action plans with each manager and their executive to promote accountability.

Development of detailed action plans provided a tool to maintain both focus and accountability. Action planning was linked to the development of productivity targets to monitor improvement. Gaps between productivity benchmarks and current performance were explored, identifying causes for variance. Each underlying "roadblock to productivity" was addressed with planned actions and milestones. Productivity targets were set to match planned actions and will be reset

no less than annually to reflect multiyear change schedules. Pressing financial performance needs in early 2003 led to accelerating some plans.

For large volume-sensitive departments (e.g. nursing units, diagnostic imaging) we also created daily and weekly performance management tools available on the manager's computer desktop to provide real-time feedback. These productivity measurement tools were designed to minimize entry time, to aid in upcoming shift staffing adjustments, and to foster "bottoms up and proactive" reporting from line managers to executives. These tools also allowed the manager to do "what if" scenarios at various volume levels to enable them to develop "contingency plans" for upcoming shifts.

[5] Support and Focus Top Management Oversight

Turnarounds are common place in health care. The difficult environment created by an industry undergoing fundamental change has caused most health care organizations to examine opportunities for improvement, both to increase efficiency and to improve customer service. Many of these initiatives start with developing a burning platform or sense of urgency for change. After that the recipe for success has several important ingredients including management team focus and attention to details that assure timely execution and sustain change (Bossidy & Charan, 2002) (Collins, 2001).

Managing a complex program with as many as twelve simultaneous initiatives requires discipline and coordination. Many initiatives overlapped and some were laborious. Executive commitment, sponsorship and oversight are critical at this and every subsequent stage.

Implementation support began immediately. In addition to drilling down into each priority area to develop detailed work standards and action plans for process improvement, the discipline of

performance management was taught and reinforced at both departmental and top management levels.

Executives took an active roll in monitoring performance, as well as coaching managers. The consultant provided support to the executives, primarily in problem solving. Early in the first month a detailed work plan with measurable objectives and milestones was finalized. Monthly review of both progress and key outcome indicators began immediately. Senior management tools and vehicles included:

- Detailed work-plans for each initiative in a standard template to assure rigor and to support monthly progress tracking.
- Monthly updates on progress - a summarized compilation of all sponsored initiatives with color coding of overdue milestones.
- A monthly "dashboard of key indicators". This report requires top management attention to performance against outcome measures for volume, revenue, quality, productivity and supply chain ratios. Tabular detail was summarized in a spider diagram illustrated in Figure Two.
- Selected measures are also updated on weekly "flash reports" which provide more immediate feedback and therefore increasingly proactive management of results.

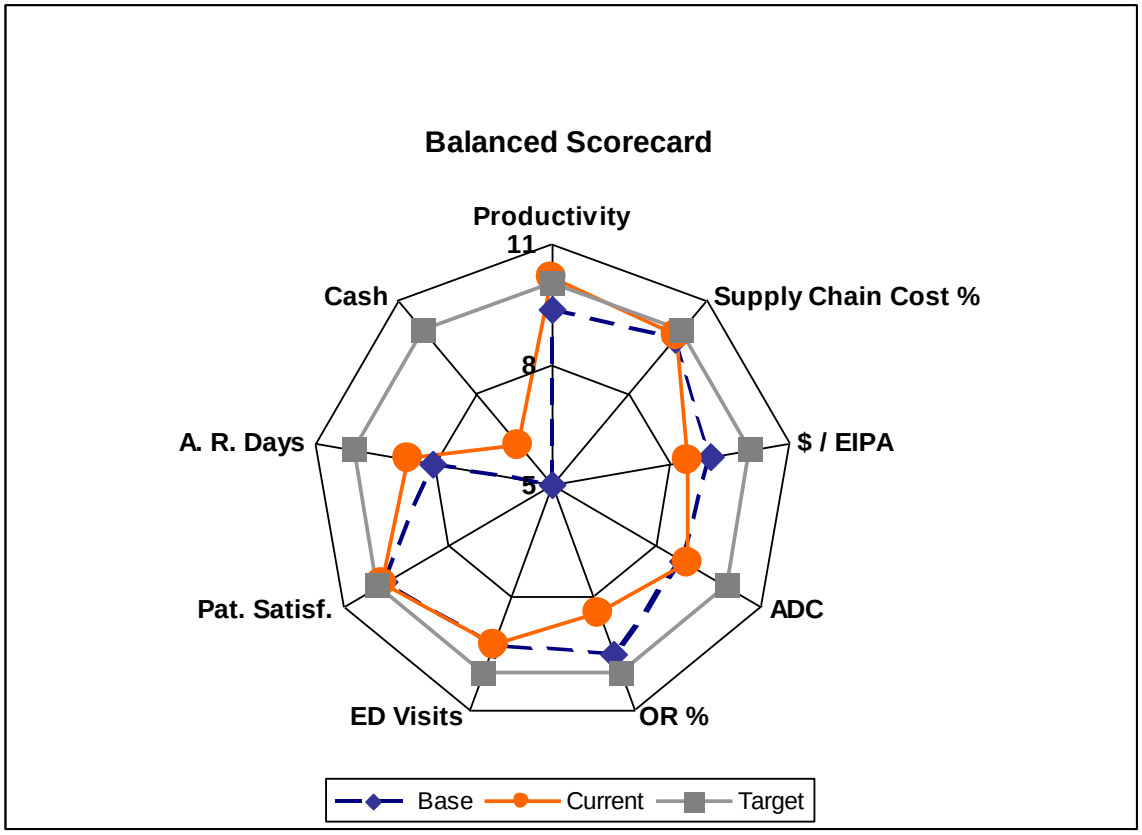

Figure 2: Spider Diagram--Balanced Scorecard

[6] Monitor Productivity & Other Critical Success Factors with Emerging Targets; Integrate to Budgeting and Cost Accounting

Performance management requires ongoing processes to monitor goal attainment and respond to shortfalls. Tools and disciplines to support the monitoring of progress in these areas are critical to maintaining organizational focus and manager accountability.

A quick-start strategy was chosen; more accurate and comprehensive reporting would evolve. The goal was to immediately build awareness, move toward higher performance and introduce new disciplines.

- Interim targets based on external benchmarks and prior internal "best practice" were not always perfect, but gave a six to twelve month head start.
- Targets and standards were then gradually refined as were report format and complexity.

- This capability became extremely helpful when the need arose to achieve extensive mid-year budget cuts.
- The old slogan, "Ready, Fire, Aim" proved helpful!

The most comprehensive and accurate reporting is monthly to accommodate the collection of financial statistics through the billing system. (A byproduct has been increased attention to completeness of charge capture by managers now being measured by the statistic.)

In addition, cost center target expectations were translated to a readily available global statistic. This compromise provided a biweekly (based on the payroll cycle) preview report on overall performance within each vice president's sphere of control.

Final steps in the evolution are moving detailed fixed and variable standards into cost accounting and internalizing all reporting into the normal course of management business practices. Large departments have installed additional, but linked, daily performance management tools and overtime use is closely monitored

Executives must recognize that this is a gradual educational process. Establishing standards is the easy part. Operationalizing them is more difficult. Routinely (bi-weekly) executives reviewed performance with direct reports, diagnosed the cause of variances, and, if necessary, evaluated alternative ways of staffing. Throughout this process the executive needs to encourage, challenge and hold managers accountable. Finally, the executives need to know how far and how fast managers can be pushed, recognizing when to ease on the accelerator and when to press forward. In this stage, the speed of change is variable - but the end target (standard) should be set.

[7] Plan and Execute Change Management Strategy and Tactics to Modify Behavior

Execution is critical to sustain performance improvements. Execution consists of dialogue within the organization so that the key stakeholders understand the business; accountability so that things get done; and follow-through to ensure that plans keep on track (Bossidy et al., 2002).

Early in the process the management team examined where the organization has been and where it must go in order to survive. It is easy to focus on the "miserable" health care environment (hospitals in the region have been experiencing sustained losses for the last five to six years), however, "it is what it is" and until the environment improved, THIS organization needed to take necessary actions to protect its existence.

The assessment findings, initiative work plans and monitoring progress have already been discussed. All these steps helped establish accountability and follow through. Equally important were top management discussions and plans for "change management". Each vice president became active in a "transition plan" - educating managers and medical staff about the need for change and "sponsoring needed activities. Focusing on human and organizational factors was just as important as developing rational solutions.

Because current information systems did not support monitoring productivity and supply costs, special tools were developed. These tools became ingrained in management processes. For example, weekly hiring decisions were tied to current productivity. They also focused the management team on where work force reductions were required.

To further integrate new disciplines and reinforce desired behaviors, performance targets were also used to develop the budget. Preliminary volume and labor information was extended with productivity standards to optimize the budget. The final level of integration will occur as labor is componentized between fixed and variable and ultimately used to drive "flexible" budgeting. This evolutionary process facilitated changing expectations (and ultimately the behaviors) of the

managers. Integrating these new tools into existing routines allowed the organization to institutionalize the process.

Another example of how information was used to change managers' behavior was in home care. Reimbursement levels did not support the cost structure. A model was developed that was used to aid the managers understanding of the current economics of home care. For instance, private payer reimbursement was not adequate to cover the direct costs of delivering the care. As a result, working with the home care team, service delivery was "reverse engineered" to bring cost into alignment with revenues, without degrading quality. This model is currently being used to evaluate whether, after the changes, certain payer contracts should be eliminated.

[8] Achieve and Sustain Results

The formal project has been completed and significant savings already achieved, but implementation and sustaining results remains a priority. An internal coordinator continues to provide monthly reports to top management and finance has integrated performance reporting into their monthly schedule. The consultant provides ad hoc support and provides periodic checkups.

Progress on many fronts is confirmed by the hospital's primary tracking mechanisms.

- Productivity has risen 12 percentage points, moving to within 2% of the global target.
- Patient days have moved closer to the daily target – gaining over 5 percentage points.
- The volume gain has improved utilization of fixed staff and facility capacity, contributing to productivity gains and returns on capital as expected.
- Supply chain savings now exceed $2,000,000 per year.
- Additional results include greater manager accountability and resolution of some customer dissatisfiers.

- Behavior and culture are beginning to change and monitoring helps by keeping everyone focused.
- Most important is the improving bottom line!

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