From Common Sense To Health Cents

Why Such Interest in the Balanced Scorecard

Over the past year, the healthcare industry has shown an accelerated interest in the Balanced Scorecard approach to strategic management. The Balanced Scorecard language is appearing with increasing frequency in articles, grant requests for proposals, and seminars. While this approach has proven to be a highly effective tool, it is important to understand its application before jumping in with both feet.

The Balanced Scorecard is an approach that helps organizations create sustained value and focus on creating a stronger future.[1] The Balanced Scorecard is an approach first introduced by David P. Norton and Robert S. Kaplan in the early 1990s. David Norton explains that the Balanced Scorecard provides a framework to describe an organization's strategy in a simplified way that creates shared meaning. This approach to strategic management puts everyone on the same page and identifies how every employee in the organization contributes to organizational success.[1]

Over the past two decades, the healthcare industry has been besieged with approaches that have been promoted as being the magic bullet to solve our financial, operational and quality problems. Despite two decades of effort, healthcare organizations continue to struggle for survival, the industry is facing a dangerous professional staff shortage, public opinion continues to wane and regulatory scrutiny grows. The industry needs to find tools and techniques to assist in stabilizing the variables that are contributing to this decline. Many believe that the Balanced Scorecard is just such a tool.

Many of the activities and approaches that have been successful in the past will not achieve the same results in today's market. The Balanced Scorecard approach creates an environment that recognizes that the "one-size-fits-all" approach to business planning and problem solving does not work in today's complex business environment. It allows an organization to recognize the strengths and weaknesses of multiple performance improvement options and to utilize the right technique for the organization's needs while assuring continuity in outcomes through one common strategic management approach.

Probably the most important and compelling reason for an interest in the Balanced Scorecard approach is the fact that it focuses on four areas that are

recognized as problematic in healthcare today. The four strategic themes of this approach to strategic management are: 1) the *innovation theme* describes how an organization will transform itself over a three– to five-year time frame to create new

markets and new ways of doing business; 2) the *customer management* theme defines how new customer value propositions are to be executed; 3) the *operational excellence theme* describes how quality products and services will be delivered and how short-term productivity will be managed; and 4) the *social/regulatory theme* defines how the organization will be a good corporate citizen, securing stability for its long-term position in the system.[1] When taken together, these four strategic themes provide a program for sustained value creation.

The Balanced Scorecard approach encourages an organization to look at the 70% - 80% of critical components for success that are frequently overlooked in the traditional financial approach to organizational management. The approach recognizes that organizations can not burn-and-slash or buy their way out of the challenges of today's market. In service and information industries, the products that providers are selling are the skills and knowledge of their staff. All the tangible assets of an organization such as equipment and buildings have little value in creating future success without the people skills and strong processes (intangible assets) that can turn the potential of tangible assets into outcomes.

The ability to mobilize and exploit intangible assets has become far more decisive in today's market than investing in and managing physical and tangible assets.

The Four Strategic Themes of the Balanced Scorecard [1]

1) the innovation theme describes how an organization will transform itself over a three– to five-year time frame to create new markets, and new ways of doing business	2) the customer management theme defines how new customer value propositions are to be executed
3) the operational excellence theme describes how quality products and services will be delivered and how short-term productivity will be managed	4) the social/regulatory theme defines how the organization will be a good corporate citizen, securing stability for its long-term position in the system

The design principle of the Balanced Scorecard focuses on achieving a strategic balance between tangible and intangible assets. This balance brings the competences of the workforce, the technologies to support them, and the climate that motivates and incites them together to build success.[1] This focus is one that could benefit many healthcare organizations.

"COMMON SENSE IS SEEING THINGS AS THEY ARE, AND DOING THINGS AS THEY OUGHT TO BE DONE"

The Basics of the Balanced Scorecard

The primary goal of an organization is to create sustained value over the long term.[1] The Balanced Scorecard focuses on creating a balance between short-term activities and long-term goals to create that sustained value. This approach helps organizations deal with the conflicting priorities of the long-term goals of the strategy and the short-term goals of day-to-day operations. For organizations with a high level of regulatory involvement, such as healthcare, the activities of the scorecard can be divided into four basic categories:

1. Building the business - focusing on the creation of new business opportunities;

2. Increasing customer value - restructuring relationships with customers to expand the current value proposition;

3. Increasing operational excellence - focusing on productivity management, quality, asset utilization and operating performance; and

4. Practicing good citizenship - focusing on external and indirect constituents as a result of regulatory relationships.[1]

The design principle is based on the belief that in order to transform an organization, short-term gains need to feed into middle-range gains and middle-range gains need to feed into long-term gains.[1] The need for an approach such as the Balanced Scorecard is based on the finding that most organizations have little connection between short-term gains and long-term goals. Studies have indicated that:

- The failure rate for strategic plan implementation is estimated to be as high as 95%.

- Only 7% of middle managers and frontline employees understand their organization's strategic plan.

- Only 21% of middle managers and 7% of frontline employees have personal goals that are linked to their organization's strategic plan.

- Less than 10% of an organization's workforce have enough understanding and buy-in to an organization's strate-

gic plan to believe in it and champion it.

- Without staff buy-in for a service organization, the failure rate of a strategic plan is 99%+.

The Balanced Scorecard recognizes that the primary role of strategic management is to focus energy. Its role is to take those thousand points of light that exist in an organization and turn them into laser quality focus to create sustained value. It focuses on creating the necessary strategic balance between managing the organization's present business curve and driving the creation of the future business curve.

By point A on the present business curve, the organization needs to have a plan to successfully carry it into the future.[4] If an organization waits until point B to begin decision making and action, the performance slide has already begun and the room for proactive change is in danger. Financial and operational pressures will have already begun. By point C, the organization is in a reactive mode and often frantically fighting for control in a declining market and fading customer loyalties. At this stage, actions are not taken as a result of well thought out plans but because the organization is in crisis. The primary objective of all day-to-day activities becomes crisis management and survival. In most environments, the life of the present curve should be treated as the period between now and 18 months from now with the future curve being from 18 months out to 5 years.[4]

The Balanced Scorecard is about aligning people and resources to achieve success and moving out of the crisis approach to

B

FUTURE

C

A

PRESENT

and strategy so everyone can contribute; communicating and linking strategic objectives and measures; setting stretch targets that create a better future; aligning strategic initiatives to assure focus on activities that create added value; and enhancing strategic feedback and learning.[3] Many companies such as Mobil, Sears, and Cigna Property and Casualty have reported successful turn-arounds using this approach.

Many organizations have a multitude of initiatives but frequently many of the initiatives do not have strategic value. The Balanced Scorecard approach treats strategy as a series of cause-and effect relationships. The cause-and-effect approach prompts a closer evaluation of these initiatives to determine those that should be continued and those that do not represent good investments of resources and energies. The approach recognizes that it is critical to understand the impact that all initiatives have on the future sustainability of an organization. Instead of shooting-from-the-hip in hopes of finding that balance of services that will sustain the organization, the Balanced Scorecard promotes a well thought out, integrated approach.

The Balanced Scorecard approach consists of two critical steps. The first is the development of a strategic map which reduces the organization's strategy into a simplified, one-page picture. The strategic map provides a shared model of the organization's strategy to help translate vision into action.[3] David Norton points out that this step is about creating a set of strategic themes that will bridge the gap between the existing state of operations and the desired state.[1] These themes can then be the basis to organize the priorities and operations of the organization and are used to build scorecards in the second phase of the process. When all these activities come together, the work and activities of the organization can be delegated among various levels of the organization to achieve synergy and successful implementation.

The second important phase of the Balance Scorecard approach is the creation of a scorecard. The scorecard reduces the strategy communicated in the Strategic Map into manageable objectives, measures in the form of lead and lag indicators, stretch targets, and "double-looped" learning opportunities. The scorecard recognizes and sets the groundwork to manage identified performance gaps. Establishing timelines for successful implementation while balancing quick-hitting initiatives with slower developing programs and integrating the activities of disparate parts of the organization are important steps to the process.[2]

Readiness for Strategic Change[2]				
	Heard	Support	Believe	Champion
Board of Trustees				
Senior Management				
Middle Management				
Staff				

business management. It is managing strategy over the long run to assure balance between strategic development and day-to-day operations; clarifying and translating vision

Moving the Balanced Scorecard into Healthcare

The interest in the Balanced Scorecard for health care is largely based on the fact that the approach offers an opportunity to better manage several issues that repeatedly surface as barriers in reversing the decline felt by many in the healthcare industry. Over the past two decades, most hospital initiatives have focused on financial efforts to buy or reduce our way out of the decline. Kaplan and Norton point out that "navigating in a more competitive, technological and capability-driven future cannot be accomplished merely by monitoring and controlling measures of past performance".[2] They point out that those measures of the past are primarily financial measures. Kaplan and Norton's design places necessary importance on factors such as innovation, skilled and motivated workers, strong operational processes, strategic forecasting, quality of services delivered, customer value propositions, and good corporate citizenship.

The Balanced Scorecard is about linking key activities within the organization to promote sustainable success through coordinated and focused initiatives. The organization's mission is at the heart of all activities. Through a mosaic of linked activities that focus on innovation, operational excellence, customer value propositions and good corporate citizenship, the organization can create an environment that promotes the conditions necessary to move from the panic zone to the change-ready zone.

A well-structured strategic initiative can serve as the foundation for high quality healthcare services, strong operational processes, skilled and motivated staff, and strategic financial management. These become the key ingredients to creating patient satisfaction, patient retention, patient profitability, new patient acquisition and market share retention.

Rather than having all these activities exist in isolation of each other with their own separate initiatives, the Balanced Scorecard brings them all together to create a focused and directed effort. An advantage of the Balanced Scorecard design is that it allows healthcare organi-

zations to adopt an approach that focuses on areas critical to their current situations while they also learn to operate with a much different business approach than has driven past healthcare practices.

Over the past two decades, as healthcare changes have moved full speed ahead, many healthcare providers have resisted strategic change and argued that healthcare can not be treated like a typical business because what we do "makes us different". The reality is that healthcare constituents are less willing to treat healthcare providers differently than other businesses. Special
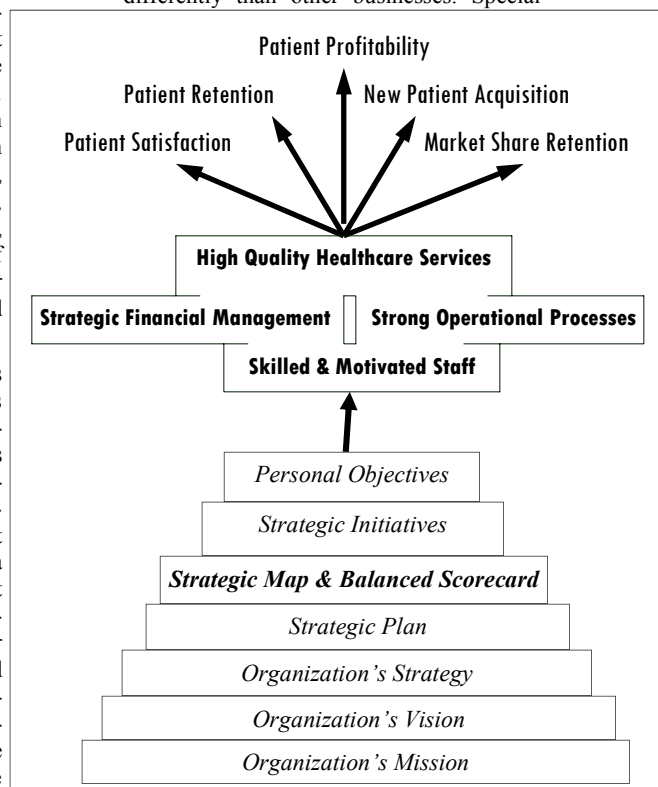
considerations are quickly going by the wayside. He who provides the best service, gets the business. Community and patient loyalty are not what they once were. For this very reason, healthcare providers need to drive better business practices into what they do. If this does not occur, many communities could find themselves without easy access to needed healthcare services.

A more comprehensive approach, such as the Balanced Scorecard, can facilitate a more analytical and strategically focused effort in a rapidly changing healthcare environment that is hallmarked by competition from a number of directions. These are environments that healthcare providers are not accustomed to or comfortable in. Prior to the past two decades, healthcare organi-

zations enjoyed a high level of regulatory protection. It was not important to know how to be competitive or efficient. Providers were paid whatever they said it cost to deliver care and regulatory control over the market prevented competition from moving into their service areas. The market of today has shifted to the other end of the continuum. Competition is around every corner and the dollar paid for care continues to shrink.

Over the past decade, efforts have focused primarily on trying to manage financial aspects of a healthcare organization to better position the organization for survival. Unfortunately, a predominantly financial focus often devalues what patients perceive to be important and those internal activities that promote growth. The long term outcome is often continued decline in patient volumes, a high number of errors, declining quality, loss of staff, inefficient operations, and the failure of staff skills and abilities to keep up with the rapidly changing environment.

Strategy is about taking an organization to a new level of performance that creates strategic advantage. These types of moves can not be done randomly or haphazardly. Most healthcare providers do not have the financial reserves to learn from trial-and-error approaches. Patients are increasingly impatient. Too often patients are willing to give healthcare providers only one chance to prove themselves.

No matter how large or small the organization, healthcare providers need tools to help work through the decision-making and implementation phases of strategic planning. While organizations always have great intentions, the pressures of day-to-day activities and reliance on traditional management techniques create an environment where the strategic plan often becomes a casualty. It is estimated that the average organization spends less than two hours a month seriously evaluating the implementation of their strategic plan and planning for its success. When you consider the twelve to fourteen hours per month spent on evaluating compliance with the annual budget, it is understandable how easy it is for an organization to get caught up in perpetuating the present instead of creating a future. If healthcare organizations are to create a new future that promotes financial stability and quality care, they need to find the right tools to achieve the right outcomes at the right time.

Getting Focused

The first, and possibly the most critical, step in using the Balanced Scorecard is getting focused. It is important to recognize that the Balanced Scorecard is a management tool. Kaplan and Norton explain that executives who value vision, communication, participation, and employee innovation and initiative will find the scorecard to be a natural and powerful management tool.[3] In turn, executives who manage with financials and prefer employees who simply follow the directions associated with plans devised by a small power group at the top of the organization will find this approach incompatible with their management style.

If used appropriately, the Balanced Scorecard can be very powerful in helping to align different groups in a healthcare organization around common goals and strategies. Buy-in from the top with a clear understanding of leadership's role is critical to getting started. The final outcome is directly related to the effort and commitment put into the process.

Once the commitment of leadership has been secured, the next step is to understand the strategy that the organiza-

tion desires to achieve. It is extremely important to clearly and objectively understand the organization's current performance curve, to define the desired future performance curve and to be very realistic about the strategic gap between what is and what is desired. Sugarcoating the current state only makes it more difficult to develop meaningful strategies.
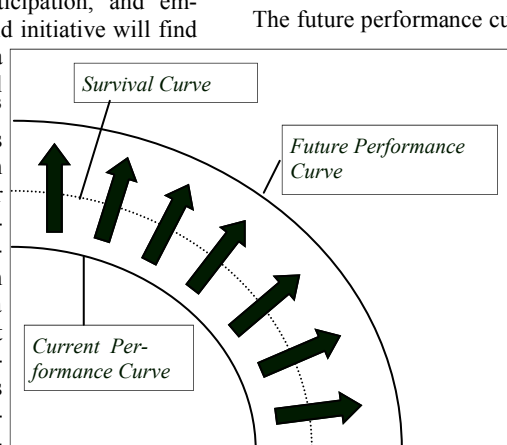
The future performance curve is stated in terms of stretch targets. Stretch targets are important in getting an organization beyond a survival curve. The plans of many healthcare organizations focus only on survival. For example, many hospitals entering the Critical Access Hospital program entered it without a well articulated strategic plan. Becoming a critical access hospital was treated as the end goal and the survival strategy was an enhanced Medicare rate. There was not a clear understanding that becoming a critical access hospital was only one step in a bigger cause-and-effect relationship. Conversations such as "with the new Medicare rate and two more patient days per day, the hospital can get

by." The goal needs to be something bigger than "getting by." As a result, many of these hospitals continue to struggle. Employees and physicians grow tired of just getting by. Communities lose faith when the only perception of the hospital is one of continued decline. Investors are reluctant to work with organizations that only have a plan based on survival.

The development of a strategic map is the next step. The map is important in reducing the organization's strategy to a simplified tool that communicates and demonstrates the critical features and integrations of the plan. It helps everyone to understand their roles and to visualize the cause-and-effect relationships that can make the strategy a reality. This is important in today's healthcare environment where our employees and key partners have lost faith. Skepticism can be reduced when people can break the vision down into manageable pieces that they believe are achievable.

Once a strategic map is built, a team of key players can build the scorecard. The scorecard reduces the map into a series of objectives, targets, measurements and initiatives that can then be divided up amongst a wide range of people in the organization to facilitate timely and innovative actions. A transition to strategy-oriented management meetings and what Kaplan and Norton refer to as "double-looped learning" allows an organization to monitor and fine tune the plan and activities without overtaxing the workforce.

Lead Versus Lag Indicators

Studies have shown that up to 95% of all strategic plans never see complete implementation. Many barely make it out of the starting gate. Experts in the field attribute this, in large part, to performance evaluation being buried in traditional "lag" indicators.[2,3]

In their work, Kaplan and Norton point out that most organizations evaluate their strategic plan with the same mindset as they do their operational plans. As a result, the strategic plan is evaluated with the same short-term goals as day-to-day operations. Ninety-two percent of the organizations in their review had no lead indicators to measure and report strategic success.[2] As a result, strategic activities frequently get pushed to the side because

they fail to produce immediate gratification.

Lag indicators are diagnostic in nature and measure whether the business remains in control. They report past performance. These are commonly the traditional financial indicators. Lead indicators are measures of future performance and monitor whether the organization is on target with its strategy.

Surviving in a more competitive and dynamic future can not be accomplished merely by monitoring and controlling financial measures of past performance. The strategic plan and day-to-day operations can not be treated as stand-alone activities. Lead indicators help employees

to remain focused on the future vision of the organization and their contribution to making that vision a reality.

In building a Balanced Scorecard, there must be an appropriate balance of lag and lead indicators to assure that the organization remains focused on improving the present while building a future that will assure the continued success of the organization. An imbalance, particularly one in favor of lag indicators, will promote activities to perpetuate the past. The long term consequences of this focus are often strategic failure and continued decline of the organization.

Building Community Value Propositions

In their work, Kaplan and Norton stress the importance of building strong customer value propositions. As healthcare organizations compete for market and, in many situations, a shrinking market, the critical question is why should the patient choose your organization?

Crucial to survival in today's market is the ability to offer the stronger "value proposition" to your community and prospective patients.[2] Value propositions are defined by the patients or community and are those features of the organization's services that they determine as meeting their needs the best and thus, make the organization and its services the preferred choice. Successful value propositions are validated in the mind of the patients and community based on their observations and experiences.

Over the past three decades, specialization, more stable medical staffs, a more comprehensive aggregate of services and the perception of greater organizational stability have given larger organizations the competitive edge in creating stronger value propositions. As a result, rural healthcare organizations have experienced significant outmigration of patients.

Understanding value propositions is extremely important to the process of strategic planning and building Balanced Scorecards. The patient and community's perception of the healthcare organization is the organization's reality. It does not matter what the leadership may think. If the perceptions of those who choose to buy or use a service is not a good one, that perception prevails.

Existing value propositions need to be dissected to better understand how to further develop them in promoting even stronger relationships and to minimize the potential for dangerous tinkering. New value propositions need to be created as market dynamics change and community needs evolve. New value propositions are the direct outcome of "opportunity hunting."

In opportunity hunting, an organization looks for better ways to further their strategic plan and identify new service opportunities that meet the changing needs of the community. Continuous opportunity hunting is important to building strong value propositions because it helps organizations to identify opportunities while they still have the potential to be strategic moves. Without opportunity hunting, strategic opportunities often become "me-too" exercises because another provider beats an organization to implementation.

Changes in a competitor's services or value propositions can have a profound impact on how a healthcare provider approaches its own value proposition. Understanding the competition is an important step in creating a Balanced Scorecard. Conducting an honest comparison of the your value proposition and that of the competitor can frequently lead of the identification of opportunities. The ultimate goal is to always own the stronger value propositions.

Moving the Balanced Scorecard into the Not-for-Profit World

The birth of the Balanced Scorecard occurred in the for-profit sector. There are many that question its applicability in the not-for-profit world. An approach such as the Balanced Scorecard may be exactly what many not-for-profit organizations need to overcome the process orientation that many of their strategic plans take on.

Not-for-profit organizations and agencies often have voluminous documents that they call strategic plans. These documents often communicate much about the altruistic goals of the organization or agency and consist of lists of programs and initiatives that the organization takes responsibility for. The documents frequently do not talk about the outcomes the organization hopes to achieve and why these programs and initiatives are strategic in meeting the needs of the communities and groups they serve. These organizations frequently find themselves drowning in initiatives and programs that strain resources and are difficult to defend when critics choose to challenge their efficacy and need.

In today's world of shrinking healthcare dollars, decisions about what initiatives a not-for-profit organization or agency will take on is a particularly important one. The greater the strain on limited resources, the greater the potential for error and substandard service.

Success has a price tag on it, and the tag reads COURAGE, DETERMINATION, DISCIPLINE, RISK TAKING, PERSVERANCE, and CONSISTENCY—doing the RIGHT THING for the RIGHT REASONS.
James. M. Meston

Some not-for-profit organizations and agencies have difficulty with the Balanced Scorecard approach because of a perceived strong financial focus being the primary objective of the approach. For not-for-profit organizations looking at the Balanced Scorecard as a management approach, it is important to recognize the strengths of the overall process. Kaplan and Norton have identified ways in which the approach can be modified to better reflect the community focus of the not-for-profit organization. The organization or agency can rearrange the structure of the strategic map and balanced scorecard to place their constituents at the top of the hierarchy. The organization's mission to serve is then the driving force. The objectives in the scorecard define how that mission will be achieved by meeting specific outcomes.

A second important consideration for not-for-profit organizations and agencies is understanding who the customers are. In for-profit organizations where it is clear who is buying the product, it is also clear where customer value propositions need to be directed. For not-for-profit organizations, customers are be multifaceted. Often the party paying for the service is not the one who is receiving the service. So who is the customer; the one paying or the one receiving? Kaplan and Norton suggest that both parties be placed at the top of the scorecard.[3] Keeping both parties happy is critical to the future of the organization.

A public sector organization often has three high-level objectives if it is to accomplish its mission.[3] It needs to create value for its constituents, achieve success at minimal cost, and develop ongoing support and commitment from its funding sources.
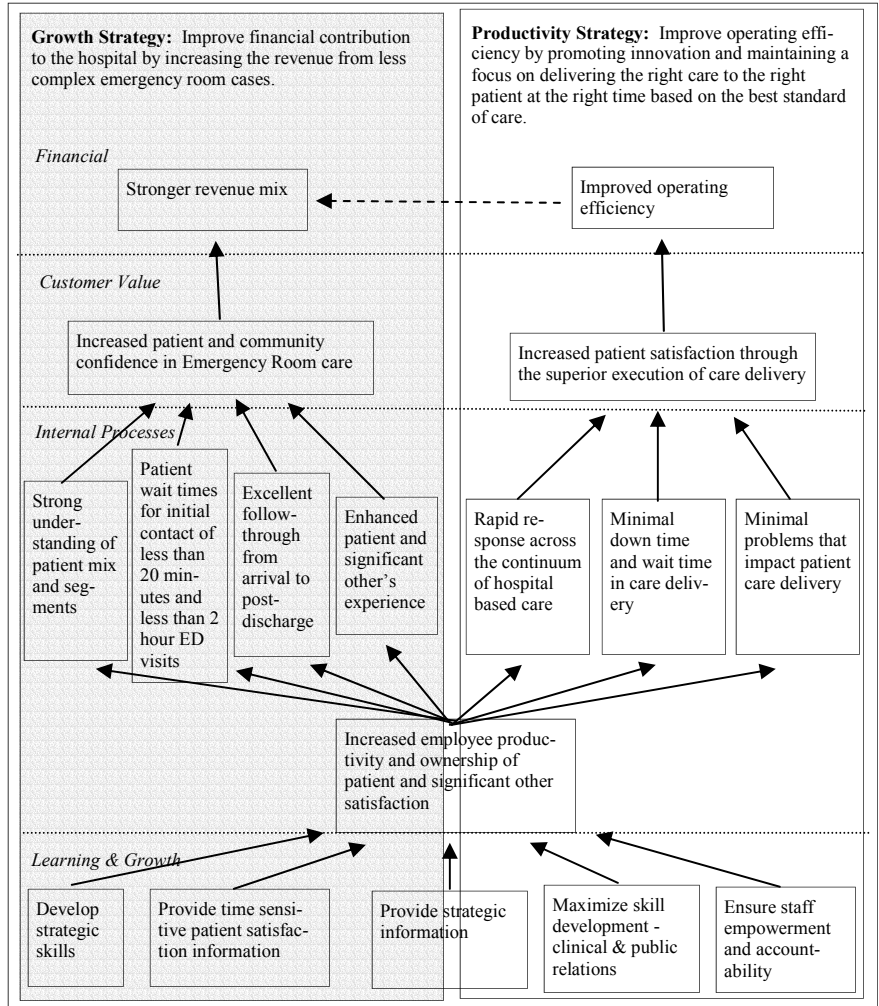
Building Emergency Room Services

Kaplan and Norton point out that the Balanced Scorecard is a more effective tool when used at a business unit level than at the corporate global level. This is particularly applicable in healthcare organizations where there is significant diversity amongst services. As pointed out earlier, there are two important phases in building a balanced scorecard. The first is the strategic map that communicates the strategy and the second is the scorecard that outlines the objectives, targets and measures that define the implementation and monitoring of the plan.

Sunset Hospital is a small rural hospital with 53 acute care beds and all the traditional hospital-based services including an eight bed emergency room. Analysis of the hospital's market demonstrates that the hospital's emergency room enjoys 58% of the potential market in its primary service area and 38% of the potential market in its secondary service area. It competes with five other hospitals for patients in these areas. Each of the competing hospitals is of equal or larger size to Sunset Hospital.

As part of the Hospital's strategic plan, the board and senior management team have decided that they want to enjoy the reputation of being the preferred provider for emergency room services in both the primary and secondary service areas of the hospital. This goal is defined as achieving 85% of the market in the hospital's primary service area and 70% in the secondary area. Efforts for achieving this growth will concentrate on the "walking-wounded" population. The reason for this focus is three-fold:

1) Due to the regulatory requirements of EMTALA, a hospital tends to already see the majority of seriously and critically ill patients in its service area because ambulances are obligated to bring those patients to the closest hospital. This is not a population where marketing efforts would be appropriate.

2) The walking-wounded constitutes the population where strong customer service and marketing activities have the potential to influence decision-making. These are the patients who actively choose where they will go for emergency room care based on who meets their needs best. Three of Sunset's competing hospitals have mediocre to poor reputations for wait times and turn around times. Sunset Hospital has a good reputation but has never focused on making it great or marketing it. If Sunset Hospital concentrates

The strategic map:

Growth Strategy: Improve financial contribution to the hospital by increasing the revenue from less complex emergency room cases.

Productivity Strategy: Improve operating efficiency by promoting innovation and maintaining a focus on delivering the right care to the right patient at the right time based on the best standard of care.

Financial

Stronger revenue mix ← Improved operating efficiency

Customer Value

Increased patient and community confidence in Emergency Room care

Increased patient satisfaction through the superior execution of care delivery

Internal Processes

Strong understanding of patient mix and segments

Patient wait times for initial contact of less than 20 minutes and less than 2 hour ED visits

Excellent follow-through from arrival to post-discharge

Enhanced patient and significant other's experience

Rapid response across the continuum of hospital based care

Minimal down time and wait time in care delivery

Minimal problems that impact patient care delivery

Increased employee productivity and ownership of patient and significant other satisfaction

Learning & Growth

Develop strategic skills

Provide time sensitive patient satisfaction information

Provide strategic information

Maximize skill development - clinical & public relations

Ensure staff empowerment and accountability

on establishing a reputation for consistently excellent care delivered in timeframes recognized to be customer sensitive, there is a good chance that patients will migrate in their direction. We live in a time where people are impatient and conscious of the value of their time. They appreciate service providers who are also sensitive to this.

3) The walking-wounded tend to help balance the financial picture for emergency rooms in smaller, rural hospitals. Contrary to common assumptions, higher acuities do not routinely equate to significantly higher reimbursement. In the majority of today's reimbursement systems, the higher the complexity of the patient care delivered in the emergency room, the lower the percentage of charges covered by the insurance carrier. For small and rural hospitals this can be particularly troublesome as they frequently transfer these more

complex cases out to a tertiary care facility and do not benefit from the inpatient reimbursement that these patients generate. As a result, the smaller hospital benefits from a higher percentage of "walking wounded" patients to help improve the revenue and expense ratios.

The above strategic map reflects the major activities that this hospital has identified as critical to its success in making its strategic goals happen and in sustaining a strong emergency room presence in the communities of its service areas. Sunset's size gives it the advantage of being able to turn flexibility into a strategic advantage. The map is utilized to communicate and share the strategy with all key people from the Board of Trustees to the frontline staff who will make this plan a reality. The success of the plan is dependent on every person from the senior management team to the emergency room professional staff to

the support staff who influence the delivery of care and productivity. From this plan, a balanced scorecard that identifies critical objectives, targets, measures and follow-up activities is developed by a strategic team consisting of representation from each influencing department. Some of the important issues to be include are:

1. Strategic skills are an employee need. This is particularly important for the senior management team. 95-100% of the normal day is spent on day-to-day operations. Management meetings only superficially address strategic needs with ideas frequently tabled for later discussion.

2. Time sensitive satisfaction information is a need. The hospital's current satisfaction measurement system can delay information sharing up to eight weeks after a patient visit. Waiting eight weeks to address patient concerns is not customer-focused.

3. The need for strategic information is critical. Information such as peak hours for patient volumes, peak days, patient mixes, referral sources, and average wait times are just a few of the data sets necessary for making good decisions.

4. Staff empowerment is another critical consideration. The management team or even a small group of employees can not achieve the breakthrough performance necessary.

Every individual who impacts the productivity and quality of care in the emergency room has the potential to make or break the initiative. Buy-in has to occur at all levels and from every person.

5. Skill development in the area of clinical skills is an easily recognized need. Public relation skills for frontline staff are not so easily identified. We've all heard the saying that first impressions are lasting impressions. The challenge in healthcare is that patients are faced with a number of first impressions throughout their visit to an organization. Each new encounter has the potential to build on or damage each prior interaction. Knowing how to present information can be just as important as the information being presented.

6. Excellent follow-through from the patient's presentation at the emergency room to post discharge interactions is key to creating the right perception. Great emergency care can easily be turned into a negative experience if the patient's bill is a problem or the patient can't get in for recommended follow-up care. It is important to think of care as a continuum instead of an episodic event.

7. One of the common complaints in any emergency room is the wait time. Wait time can be particularly prob-

lematic for patients with minor injuries and illnesses. These patients tend to fall to the bottom of the priority list for emergency room staff when critically ill patients present. While initial wait times are the first opportunity for satisfaction versus dissatisfaction, subsequent delays throughout the emergency room visit can have the same impact. Delays in getting x-rays done, having labwork run, receiving pain medication, getting EKGs done, receiving discharge instructions, having consultations and being transferred to an inpatient bed for admission can all act as deterrents to patient satisfaction. Timing, consistency, and smooth integration all contribute to the potential for a good experience.

8. Minimal problems were central to the hospital's quality improvement and risk management programs. This linkage is important to patient satisfaction and good corporate citizenship.

9. Enhanced experiences for patients and their significant others play a big role in creating reputation. Patients don't tend to brag about average service but they do tend to share experiences where they are delighted beyond belief. These conversations between members of the community are the best form of marketing.

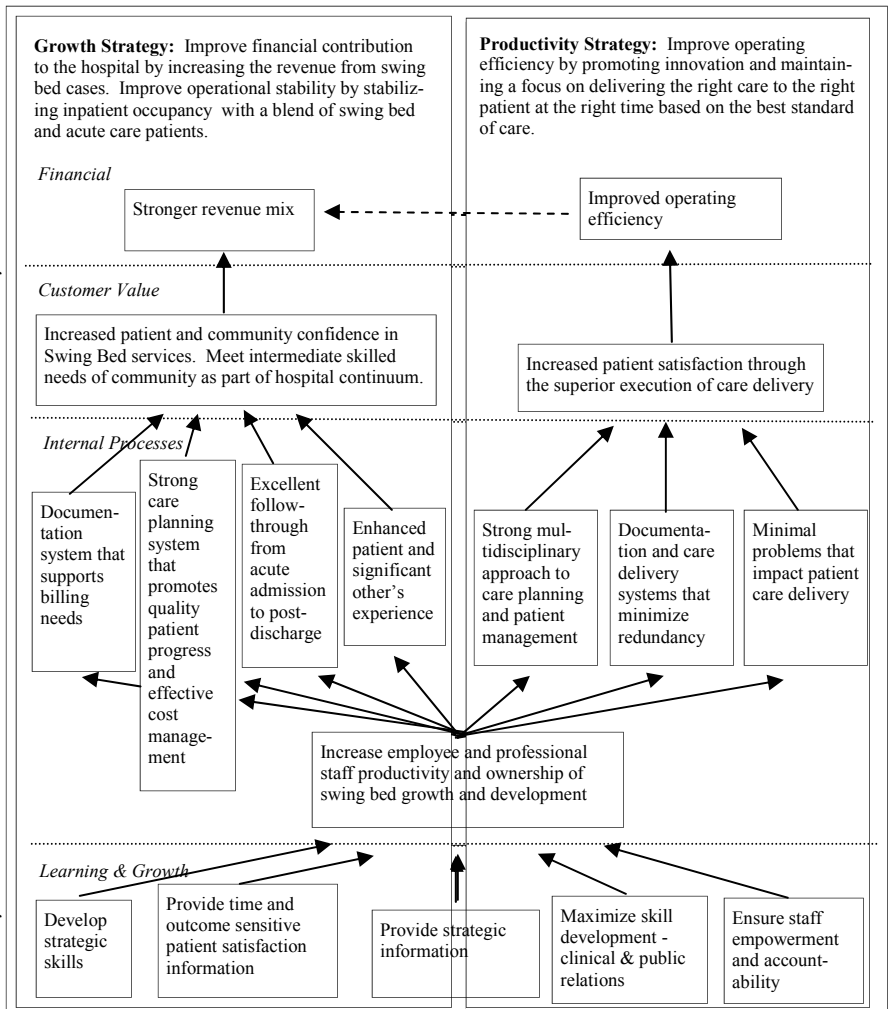| Strategic Themes		Measurements	Targets	Initiatives
Stronger revenue mix ← – – Improved operating efficiency		- Net Operating Income - Patient Acuity Mix	- 30% increase - Doubled volumes in category 1, 2 & 3 cases	Revenue Growth
Increased patient and community confidence in the Emergency Room	Increased patient satisfaction through superior execution of care delivery	- Patient Satisfaction Rate - New and Retained Market Share - Quality	- > 95% satisfaction in all areas - 85% market share in primary service area and 70% in secondary - 0% Quality of care issues	Patient Loyalty Quality Management Patient Satisfaction
Patient mix and segments / Patient wait times / Excellent follow-through / Enhanced experiences Rapid Response / Minimal down time / Minimal problems Increased employee productivity and ownership of patient and significant other satisfaction		- Patient Wait Times - Billing Accuracy - Follow-up Care Timeliness - Patient Complements - Operational Inefficiencies	- < than 5% wait times of greater than 20 minutes - < than 10% ED visits lasting greater than 2 hours - 100% billing accuracy - > 95% timeliness of follow-up care - > than 10% complements of exceptional service per month - < than 10% operational inefficiencies - <2% repeat operational inefficiencies	Responsiveness Quality Management Seamlessness Reliability
Develop strategic skills / Time sensitive satisfaction information / Strategic information / Maximize skill development / Ensure staff empowerment and accountability		- Strategic Initiatives - Staff Satisfaction - Employee Productivity - Personal Growth	-100% review of potential strategic initiatives -25% increase in staff productivity - 90% staff satisfaction & reported personal growth	Staff Development

Building Swing Bed Services

Over a decade ago, the federal government created a new program that allowed rural hospitals to provide short-term skilled care for patients to would benefit from this level of care. This program allowed communities who lacked easy access to other skilled providers to now have the service in their community. It also became an opportunity for hospitals experiencing declining inpatient volumes to have another level of service to help stabilize their operations. While some hospitals found this program to be a strategic opportunity, others struggled with its implementation.

Learning how to integrate skilled care into the traditional acute care complement of services and helping staff to achieve a comfort level with their role in this new level of care is key to its successful implementation.

Friendly Hospital is a 40 bed acute care hospital in a rural community. The impact of the changing healthcare industry has prompted a serious decline in the inpatient volumes. Their average daily census on the medical surgical floor is roughly 40% during busy times and can fall as low as 15% during lean time. Staff retention is problematic and physician frustration is high. The hospital has had a swing bed designation for approximately 6 years yet their average daily census for these patients is less than three with an average length of stay of four days.

The Hospital's board and senior management team determined that it would be in the Hospital's best interest to focus on the development of the service. The Hospital's neighboring long term care facility has been experiencing declining public favor over the past two year. Members of the community are reportedly having family members admitted to long term care facilities in other communities. The Hospital had historically transferred short-term skilled patient to the nursing home but is now receiving criticism and family pressures not to make such moves. As a result, patients are leaving the community for short-term skilled care and this is not making families happy.

The above strategic map reflects the major activities that this Hospital identified as critical to its success in establishing successful short-term skilled services in their swing beds. The map is utilized to communicate and share the strategy with key people in the organization. As with every other initiative in a service organization, the frontline employees and professionals staff are recognized as the gatekeepers of success

Growth Strategy: Improve financial contribution to the hospital by increasing the revenue from swing bed cases. Improve operational stability by stabilizing inpatient occupancy with a blend of swing bed and acute care patients.

Financial

Stronger revenue mix

Productivity Strategy: Improve operating efficiency by promoting innovation and maintaining a focus on delivering the right care to the right patient at the right time based on the best standard of care.

Improved operating efficiency

Customer Value

Increased patient and community confidence in Swing Bed services. Meet intermediate skilled needs of community as part of hospital continuum.

Increased patient satisfaction through the superior execution of care delivery

Internal Processes

Documentation system that supports billing needs

Strong care planning system that promotes quality patient progress and effective cost management

Excellent follow-through from acute admission to post-discharge

Enhanced patient and significant other's experience

Strong multidisciplinary approach to care planning and patient management

Documentation and care delivery systems that minimize redundancy

Minimal problems that impact patient care delivery

Increase employee and professional staff productivity and ownership of swing bed growth and development

Learning & Growth

Develop strategic skills

Provide time and outcome sensitive patient satisfaction information

Provide strategic information

Maximize skill development - clinical & public relations

Ensure staff empowerment and accountability

and thus must have a good understanding of the goals and initiatives necessary for success.

Some important considerations for the development and implementation of their plan include:

1. Strategic skills are an employee need. This is particularly important for the senior management team. 95-100% of the normal day is spent on day-to-day operations. Management meetings only superficially address strategic needs with ideas frequently tabled for later discussion. For this initiative, a larger number of people must have strategic skills. When implementing a new service in an area that everyone is unfamiliar with, it is important to have a broad number of individuals with strategic skills. It is important that strengths, weakness, threats and opportunities are identified as quickly as possible through out the implementation phase to as-

sure timely response and the creation of the desired patient value propositions.

2. Time and outcome sensitive satisfaction information is a need. As skilled nursing services are relatively new for this Hospital, it is vitally important that they have timely satisfaction information to react to. It is also important to know that they are achieving the clinical outcomes necessary and meeting regulatory requirements.

3. The need for strategic information is critical. Information such as average levels of stay, number of patients that did not meet short-term skilled goals, infection rates, incident rates, and post-discharge outcomes are just a few of the data sets necessary for making good decisions.

4. Staff empowerment is another critical consideration. The management team

or even a small group of employees can not achieve the breakthrough performance necessary. Every individual who impacts the productivity and quality of care on the swing bed unit has the potential to make or break the initiative. Buy-in has to occur at all levels and from every person.

5. Skill development in the area of clinical skills and skilled care is an important need for staff that will care for patients in a swing bed. This training becomes more complex if the swing bed patients are intermixed with the acute care patients. As the staff work with two different sets of regulations and two different types of patient outcomes on mixed units, they often have difficulty separating approaches to patient care. Skilled nursing is new to many hospitals. Hospitals that have attached long term care facilities tend to do better with swing bed units. Public relation skills for frontline staff are not so easily identified. We've all heard the saying that first impressions are lasting impressions. The challenge in healthcare is that patients are faced with a number of first impressions throughout their visit to an organization. Each new encounter has the potential to build on or damage each prior interaction. For swing bed patients, hospitals tend to have a

much high level of interactions with the patient's significant other and family members. These individuals are often making decisions with or for the patient. Serious consideration must go into fostering good relationships with these individuals.

6. Excellent follow-through from the patient's acute care admission to post discharge interactions is key to creating the right perception. A great hospital stay can suddenly not look so great if the patient goes home and has a bad home care experience. Patients who had bad experiences during their acute care stay tend to carry their frustration over into their swing bed stay.

7. Long term care documentation is significantly different from acute care documentation. Reimbursement on swing bed units is driven by the supporting documentation that drives the responses on the MDS (except for critical access hospitals). Documentation is an important education need.

8. Multi-disciplinary care planning takes on an entirely new meaning in long term care. Skilled care plans tend to be much more integrated and involved than acute care plans. The content of the care plan must support what is documented on the MDS.

9. Enhanced experiences for patients and their significant others play a big role

in creating reputation. Patients don't tend to brag about average service but they do tend to share experiences where they are delighted beyond belief. These conversations between members of the community are the best form of marketing. Family members play an important role in creating opinions about swing bed care.

11. Redundancy is one of the greatest obstacles for efficiency in the long term care environment. Documentation redundancy is one of the most common barriers. As the Hospital develops their program, the people responsible for implementation need to be alert to this and guard against it. This is one of those areas where it is inappropriately believed that overkill improves the process.

12. This Hospital also provides home care services for its community. Their opportunity to create a strong integration across the continuum of care that strengthens their relationship with the community across several fronts is tremendous. It is the Hospital's responsibility to make that happen.

13. The Hospital's clinical areas have historically operated in functional silos with each department doing its own thing. While a multidisciplinary approach is important in all healthcare setting, this approach is critical in the skilled nursing environment.

Strategic Themes		Measurements	Targets	Initiatives
Stronger revenue mix	Improved operating efficiency	- Net Operating Income - Patient Admission -Average Length of Stay	-150% increase in daily patient swing bed census	Revenue Growth
Increased patient and community confidence in Swing Bed services. Intermediate skilled needs met as part of hospital continuum.	Increased patient satisfaction through superior execution of care delivery	- Patient Satisfaction - Quality	- > 95% satisfaction in all areas - 0% Quality of care issues	Patient Loyalty Quality Management Patient Satisfaction
Documentation systems / Strong care planning / Excellent follow-through / Enhanced experiences / Increased employee and professional staff productivity and ownership of swing bed growth & development	Multidisciplinary / Reduced redundancy / Minimal problems	- Documentation Redundancy - Care Plan & Delivery Redundancy - Care Plan Accuracy - MDS Accuracy - Operational Inefficiencies - Patient Incidents	- < 5% redundancy factor - 100% discharge plan appropriateness - 100% care planning accuracy - 100% MDS compliance with documentation - < than 10% operational inefficiencies - <2% repeat operational inefficiencies - 0% patient incidents	Responsiveness Quality Management Seamlessness Reliability Safety Compliance
Develop strategic skills / Time & outcome sensitive satisfaction information / Strategic info.	Maximize skill development / Staff empowerment and accountability	Strategic Skills Long Term Care Skills Staff Satisfaction & Personal Growth	-100% review of potential strategic initiatives -100% staff ability in skilled care - 90% staff satisfaction & reported personal growth	Staff Development

The Role of the Balanced Scorecard in Quality

Quality is interlaced throughout the Balanced Scorecard approach. Unlike traditional healthcare quality initiatives, the Balanced Scorecard approach directly links the achievement of quality to the strategic goals of the organization. If approached correctly, the initiatives of the Balanced Scorecard personalize the quality objectives for the staff making it clear as to why everyone should be concerned for the patient's perception of the service delivered.

Strengthening performance improvement activities is going to prove critically important for the survival of healthcare organizations. For rural and smaller providers, these efforts will play a key role if they are to stop the outmigration of patients, retain qualified professional staff, improve profitability and overcome perceptions that negatively impact their relationships with their communities.

In their present condition, many Performance Improvement programs are not prepared to make the contributions necessary for organizational success. They have historically taken on marginal importance from a business perspective and their structure reflects this. This is, in large part, due to the general business philosophy in the United States which is less supportive of long-term corporate investment and places great emphasis on short-term returns. The emphasis is on current financial performance (less than 90 days). This philosophy tends to promote underinvestment in intangible assets such as product and process innovation, employee skills, performance improvement and customer satisfaction.[2] Internal development activities in which returns are difficult to value in less than 90 days are frequently treated as variable costs that can easily be cut without consequence.

Secondly, because of the way quality initiatives were introduced into health care and tension that they tend to create between healthcare organizations and outside agencies, many organizations view them as a necessary evil for regulatory and accrediting compliance. This focus has made it difficult to recognize their strategic importance. For many organizations, the peaks and ebbs in their performance improvement process can be directly correlated to their survey cycles. This approach is counterproductive. It's very stressful on employees and tends to create conflicting messages about organizational commitment to quality, staff performance, and overall improvement.

The Balanced Scorecard directly links the quality of the product or service to the outcomes of the organization and the actions of the staff. The integration of lead indicators into the measurement system links quality to learning and growth, internal processes, customer value propositions and financial themes of the scorecard. Instead of focusing the majority of efforts on "hunt-and-find" activities in search of problems to solve, the Balanced Scorecard personalizes the desire to achieve a higher level of performance on a continuous basis. This approach links quality to the positive aspects of creating greater value propositions tied to positive rewards instead of the negativity and systems of discipline that are commonplace in current healthcare quality systems.

The cause-and-effect nature of the strategic hypotheses that are part of the Balanced Scorecard help employees visualize and understand how their actions contribute to or detract from the quality of the services provided, patient and community perceptions of their actions, and the ultimate success of the organization. The focus is clearly aimed at attacking problems, not people.

The approach of "redirecting" is central to the Balanced Scorecard.[5] Redirecting involves addressing the error or problem as soon as possible, clearly and without blame. Because the efforts of the activities are decentralized down to the staff, redirecting becomes a much more desirable approach over discipline. It is important that individuals understand the negative impact without it being made personal. The final step in redirecting is to express continuing confidence in the staff and to praise progress. Successes need to personalized and opportunities to improve need to be treated as opportunities not failures.

> *This approach links quality to the positive aspects of creating greater value propositions tied to positive rewards instead of the negativity and systems of discipline that are commonplace in current healthcare quality systems.*

What is Double-Looped Learning

Throughout their work, Kaplan and Norton refer to "double-looped" learning.[1,2,3] They define double-looped learning as two levels of learning: 1) that which occurs as managers gain feedback about whether the strategic plan is being executed according to plan; and 2) that which occurs when managers question their underlying assumptions and reflect on whether the theory under which they are operating remains consistent with current evidence, observations, and experience.[2]

In an environment where change occurs at exponential speed, this type of learning is critical. The second loop of learning allows an organization to recognize and respond in a timely manner to changes in the environment such as governmental regulation or deregulation, new business opportunities, and changes in competitor activity. Too often, the opportunities associated with these environmental changes are lost because of poor response times. Timing and the ability to change direction on a moment's notice are critical in today's environment.

> *Too often opportunities knock, but by the time you push back the chain, push back the dead bolt, unhook the two locks, and shut off the burglar alarm, its too late.*
>
> Rita Coolidge

No extra points are given for continuing down a path that is doomed to fail or being the last out of the gate.

In their work, Kaplan and Norton suggest that organizations need to look at learning as a continual process not an event driven one. In a continual process, every day is a opportunity to learn how to improve performance and capitalize on opportunities.

Words of Caution

The Balanced Scorecard does not offer any guarantees of success. The success of the approach rests with the people who choose to implement it and their willingness to learn, grow, give and share. A few words of caution are as follows:

1. ***The Balanced Scorecard will become just another passing fancy if there is not serious buy-in and commitment from senior management.*** It is easy to initially create the illusion of change with any initiative but it doesn't take long for key players to recognize an activity that is going nowhere. In today's healthcare environment where skepticism runs rampant, the window of opportunity for leadership to convince their internal customers of a new initiative is very short. The leadership's commitment to the process is an important part of that message.

2. ***It is important not to predict cause-and-effect relationships where they do not exist.*** When organizations are caught up in the crisis mode of decision making, it is easy to draw assumptions that are not reflective of reality. In a crisis environment, decisions are often based on informed intuition instead of well thought out plans. Understanding the implication of activities contained in the strategic plan is critical, particularly when using an approach such as the Balanced Scorecard. When energies become focused on the wrong pathway, the demise of the organization's efforts can easily be accelerated. The plan must be able to pass the "sensibility test".

3. ***Too many measures can lead to confusion, frustration and lack of buy-in.*** Many aspects of performance improvement in healthcare function under the assumption that overkill leads to the best results. If 10 well-written indicators will adequately measure what we want, 30 indicators has to be better. The complexity that we drive into our systems fosters the decline of performance because staff become increasingly overwhelmed and demoralized by the processes. Kaplan and Norton recommend that the scorecard should contain no more than 25 measures.[3] The recommended breakdown of measures is

   - 22% Financial (5 measures)

   - 22 % Customer (5 measures)

   - 34% Internal Processes (8-10 measures)

   - 22% Learning and Growth (5 measures)

4. ***To create strategic forward movement in an organization, the scorecard should have an appropriate balance of lag and lead indicators.*** Kaplan and Norton point out that it is easy to fall into the trap of a scorecard that is dominated by lag indicators. Lag indicators tend to be the financial indicators that organizations are accustom to monitoring. Lead indicators tend to measure those activities that assure the forward movement of the organization towards its strategic goals. Kaplan and Norton recommend that approximately 80% of the indicators in the scorecard be lead indicators. This transition in monitoring activities is often very difficult for organizations that are comfortable with basing decisions only on financial performance. There is a natural migration to lag indicators as they tend to be easier to write because of the industry's greater experience with them. Lead indicators tend to be more difficult and uncomfortable to write because they measure less tangible activities in the organization.

5. ***The Balanced Scorecard must be clearly linked to the strategy of the organization.*** It is important to clearly understand and conceptualize the organization's desired future performance curve before creating the road map or scorecard that articulates how the organization will get there. It is too easy to merely slap performance measures on existing processes. This activity may drive short-term local improvement but is unlikely to lead to breakthrough success.[3] Using the Balanced Scorecard to simply perpetuate the past rarely, if ever, creates sustainable success for the future.

6. ***Attitude can make or break the success of an organization.*** Too often organizations shy away from structural and programmatic changes such as the Balanced Scorecard. This reluctance is often embedded in a fear of failure, a belief that the organization's people are not capable of the task, or a fear of change. Most people in an organization live up to or down to leadership's expectations. Key to this success is the ability of senior management to inspire the workforce to succeed. John Kotter defined management as a set of processes that can keep a complicated system of people and technology running smoothly. Leadership is a set of processes that creates the organization in the first place and adapts it to significantly changing circumstances. Today's environment demands strong leadership.

Darlene D. Bainbridge & Associates, Inc. is a consulting firm that specializes in issues affecting rural and smaller healthcare providers and communities. Mrs. Bainbridge holds certifications in both healthcare quality and healthcare risk management. She brings more than 20 years of experience in both areas to her consulting relationships. Coupling this with her experience in rural hospital, long term care, and network leadership, she has a perspective of healthcare that facilitates creating value-added solutions. "At Darlene D. Bainbridge & Associates, Inc., we are committed to helping our nation's healthcare organizations to find ways to meet the challenges of our rapidly changing healthcare environment and to make their success a reality."

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Recommended Reading Materials:

1. *Balanced Scorecard: Insight, Experience, & Ideas for Strategy-Focused Organizations*, Harvard Business School Publishing, 2002.

2. *The Balanced Score Card* by Robert S. Kaplan & David P. Norton, 1996.

3. *The Strategy Focused Organization* by Robert S. Kaplan & David P. Norton, 2001.

4. *Mission Impossible* by Ken Blanchard & Terry Waghorn, 1997.

5. *Whale Done! The Power of Positive Relationships* by Ken Blanchard, Thad Lacinak, Chuck Tompkins, and Jimm Ballard, 2002.

Words of Caution (con't)

7. *The Balanced Scorecard is not a one-size fits all approach.* One of the reported strengths of the Balanced Scorecard is its ability to work in a wide range of setting. It allows for customized approaches based on the strengths, weaknesses, opportunities and threats of an organization. For extremely large organizations, it helps to keep on top of its many facets. For smaller organizations with limited resources, it helps to make sure that every action counts.

8. *Delaying action while you search for the perfect scorecard is the equivalent of taking no action at all.* Kaplan and Norton point out that delays can be counter-productive. The most common reason for delays in implementing the Balanced Scorecard is the desire to create the best measures and information systems to provide the needed data. Kaplan and Norton recommend getting started. Developing the remaining measures and fine tuning data sources can occur as one learns from the process.[3]

9. *Activities across the scorecard will yield results at different times.* The revenue or growth side of the strategic map tends to yield slower outcomes because of the time necessary to build reputation and growth. This side of the scorecard can take 2-5 years to see maximum yield. The productivity side of the map tends to yield quicker results but they are not as sizable as those that will come from the growth side. It is important not to discredit the process too early. In an society of immediate gratification, this is easy to do. It is also important to recognize that regardless of which side of the map realizes an improvement, the changes in the lag indicators may not show up until the second or third reporting period after the change.

10. *Personal buy-in is important for employees.* Too often organizations assume employees will follow-through on desired actions simply because they are told to. Without a personal reason to succeed, the needed actions may not fall high enough on the employee's priority list to have his or her efforts be meaningful. Often the pathway to success is begun with a shared sense of urgency or immediacy. As the employees in a service organization are the gatekeepers to successful change, it is important to remain attentive to their needs.