KNOWLEDGE SPACE

The Value of Key Performance Indicators for Healthcare Providers

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The Performance Management Group LLC
TPMG’s mission is helping organizations create and sustain more value.

Founded in 1997, TPMG LLC works with executives, middle managers and front line employees to help organizations realize greater returns for its stakeholders through customer intimacy, strategy and operational excellence. Our clients have historically improved their performance by a measure of 4:1 hard dollar return on consulting dollars invested.

Who we work with

Our clients are ambitious private sector organizations and non-profit government institutions interested in generating greater performance from their organizations. They may be in the planning stages of business transformation, interested in developing a superior strategy, or simply looking to make substantial improvements. Either way, they are not satisfied with the status quo.

What we do

Our consulting services are concentrated in the following areas of practice:

- **Strategy**: helping organizations design, align and execute winning strategies.
- **Process**: streamlining processes and improving productivity of organizations.
- **Operational Excellence**: training and implementing six sigma and operational excellence programs.
- **Performance Management**: designing and deploying performance dashboards, balanced scorecards and key performance indicators.

How we do it

We realize that helping an organization change requires more than analyses and recommendations. We know that change requires successful implementation. What makes us different is that we provide the experts to enable change to happen and deliver guaranteed results!

For more information, please visit www.helpingmakeithappen.com or contact:

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“It is only in the pursuit of perfection can a person, organization or company catch excellence!”

- Gerald Taylor

TPMG LLC Managing Consultant

To pursue is to follow or take action in an attempt to over take or capture something of value. To advance along a course of action by applying one’s or an organization’s energy to its chief interest. To a private sector company, this pursuit consists of trying boosting revenues, innovating, improve quality or increasing efficiencies. In the public sector and non-profit arenas, this pursuit takes the form of productively using assets to create long lasting value for the common good. Whether in the public sector or seeking profits for shareholders, managers and decision-makers are seeking for tools to help them make it happen.

The current environment of globalization, intense competition and economic instability has increased the challenges managers face. Leaders today must be more knowledgeable than ever as they sort through the options and select the appropriate methods and right management tools for improving their organizations. They must choose an approach that will help them make the right decisions which lead to profitable growth and superior performance.

Selection and use of such tools requires an understanding of the strengths and weaknesses of each tool as well as an ability to successfully integrate them in the right way, at the right time. The secret is not in discovering a magic bullet. In reality, no such thing exists. What does exist is the advice and counsel of industry experts. Proper guidance from solid expertise can make all of the difference between success and professional failure. To help inform managers about the tools available to them, in 2007, The Performance Management Group (TPMG LLC) launched a multiyear research project to gather data, facts and information regarding the most proven methods and best practices in industry. The result of our efforts will be published in successive guides to managers called, Knowledge Space™.
The goal of Knowledge Space™ is to provide decision-makers with:

1. An overview and description of different leadership tools and proven practices.
2. An understanding of how the methods are used to bring about favorable results and compare to other organizations across industries and around the globe.
3. The information they need to identify, select, and integrate the right approach to improve their organization's performance.

Knowledge Space™ is a dynamic system of advice and education. It consists of published guides, blogs, and online instructional workshops. In Knowledge Space™, leaders will find research and education which provide a number of important insights including, the extent to which:

1. Industry leaders are satisfied with certain management practices, their rates of usage, ease of implementation, and effectiveness.
2. Methods are effective when used individually or when part of a major organizational effort.
3. Approaches achieve better results.

In our Knowledge Space™ guides, we describe management practices, how they are used, related topics and the value they offer. Through our primary and secondary research, we determine the extent to which each approach is being deployed and its rate of success.

In December 2012, TPMG Educational Services launched Knowledge Space™ Blog. In this blog, you can read free cutting edge research and information regarding leading practices that are proven to bring about success. You can converse with leading professionals and gain practical insight from their experience and comments. You will also find multimedia case studies and instructional videos that will sharpen your skill sets and help you build your own professional capital.

In January of 2013, TPMG Educational Services will establish Knowledge Space™ Seminars. Knowledge Space™ Seminars are inexpensive online self-paced multimedia self-paced AND live skill building workshops which will help you refresh your credentials and build on your professional development.

To learn more about Knowledge Space™ products and services contact TPMG Educational Services at info@helpingmakeithappen.com.
A Knowledge Space™ Guide to Management and Leadership

In this guide, we define the value and use of Key Performance Indicators. We provide a compelling rationale for why leaders need to measure; we outline seven best practices for using quality and performance metrics and then supply real world examples of effective use of quality and performance metrics. This guide does this in the context of the Healthcare industry.

The Value of Key Performance Indicators for Healthcare Providers

If winning isn’t everything, why do they keep score?

– Vince Lombardi

The quote above embodies the purest notion regarding the nature of work. There is a scale by which we success is measured and someone is always keeping score. For managers, this means there is a scale by which the consequences of our decisions and actions are measured. Our hope the results of our efforts are favorable for those who entrust us with decision-making authority. In a profit seeking organization, shareholders, employees and customers measure the outcomes of the decisions we make and the actions we take. In government, this task is given to the voting public. For non-profits, managers are brought to account by fundraisers, contributors and the beneficiaries of their organization’s services.

In the world of healthcare, the ultimate trust is that which exists between patients and providers. When patients require care, they rely on medical experts to provide the right diagnosis, early and timely treatment, and the best conditions for a complete recovery. And yes, they too are keeping score.


**Leadership Tool: Key Performance Indicators**

**Why measure?**

This writer can think of at least 100 reasons why a healthcare leadership team should design and deploy a performance measurement system. For the goals of this article, we will concentrate on the most important motivations.

Why measure? First, a healthcare leadership team should deploy a measurement system to reinforce their organization’s mission. A common joke about measurement systems is, “If we didn’t measure things, we wouldn’t know how good we are at measuring the things we are measuring!” Yes, a measurement system should have a purpose. Secondly, a healthcare leadership team should deploy a measurement system to promote a reduction in medical errors and work process perfection. A study recently conducted to identify medical errors asserts that as many as 90% of hospital mistakes go overlooked. Finally, a good healthcare measurement system will associate patient outcomes with the performance and protocols of the system’s experts. Accuracy, accountability and purpose are three essential characteristics of a healthy performance measurement system, but the number one reason a healthcare organization should deploy key performance indicators can be summed in one word = PRODUCTIVITY!

Now, more than ever, the healthcare industry needs to embrace the economic value proposition of improving productivity. For the past 20 years, the industry has experienced anemic productivity growth while healthcare labor productivity actually decreased by 0.6% annually. The economic consequences of this type of industry performance are stunning. U.S. health care costs currently exceed 17% of GDP and continue to rise. A PricewaterhouseCoopers report projects that health care costs will increase 7.5 percent in 2013. That is more than three times the rate of inflation and the projected rate of US economic growth. That same report also notes that health insurance premiums are expected to rise 5.5 percent, in large part because employers are shifting costs to their employees. Medicare’s Office of the Actuary forecasts that health care spending will jump to more than 7 percent in 2014. At the same time, healthcare providers will face unprecedented cuts in reimbursement rates from Medicare and other third party payors. The bottom line is that until true health care cost reform becomes a reality, these pressures will continue to cause problems for providers, for people’s health care and for the nation’s economy. Healthcare organizations should use these pressures as motivation to embark upon a relentless pursuit of ever-increasing productivity.
Why is pursuing productivity so important healthcare providers?

Improving productivity helps providers stay in business and grow. Improved productivity is an organizational competence that insulates healthcare organizations from destructive actions like avoid across-the-board cuts in expensive services, staff compensation, and head count. In fact, a nationwide improvement in productivity among healthcare systems can reverse the negative economic consequences forecasted on the horizon.

Economists Mark Whitehouse and Tim Aeppel aptly describe the economic value of productivity growth in a November 3, 2006 Wall Street Journal Article:

“Productivity matters for everyone, because it provides the essential ingredient that makes nations rich! When companies produce more for each hour their employees work, they can pay higher wages or reap bigger profits without having to raise prices. Annual productivity growth of 2% would more than double inflation-adjusted wages over 40 years, all else being equal. Add another percentage point in productivity growth, and wages would more than triple!”

What is Productivity?

Essentially, productivity is defined as output per unit of input. As illustrated in the figure below, productivity is the difference between the value produced by an organization and the cost of the basic resources brought to bear in a productive process.
From the perspective of the patient, the ultimate measure of productivity (patient value) is the full set of favorable health outcomes over the cycle of care divided by the total cost of care of the patient’s condition.

Healthcare providers can increase productivity by doing the following:

1. Increase the number of patients served (the numerator) while keeping the cost of the inputs (denominator) fixed.
2. Keep the number of patients served constant while decreasing the cost of clinical and administrative processes.
3. Accomplish a combination of the two examples above.

**Productivity vs. Quality in Healthcare Delivery Organizations**

Harvard Professor, Michael Porter argues that quality and performance improvement are key drivers of cost containment and higher value, where quality is health outcomes. Stated another way, the drive for better quality of health outcomes and the drive for increased productivity are not mutually exclusive. In fact, poor quality is not only poor for healthcare outcomes but also creates a drag on productivity.
The figure below illustrates how poor quality can cause problems for productivity. It describes the generic equation of productivity but integrates certain non-productive outcomes organizations typically produce. Along with salable goods and service transactions, organizations produce defects, errors, rework, customer credits, fines, accidents, lawsuits etc... These outcomes describe work products six sigma black belts call the hidden factory; and the costs associated with them are referred to as the Cost of Poor Quality (COPQ). They reflect the failures and dysfunctions of organizations and rob industries of the productive use of human and financial capital.

For healthcare providers, the hidden factory can be found in both administrative and clinical areas. A recent study found that medical errors cost Medicare more than $324 million per month. A USA Today article reported that 80% of medical bills are inaccurate and a 2009 study conducted by University of Minnesota health finance professor Stephen Parente found up to 40% of hospital insurance claim statements contain errors. To make matters worse, many patients are paying a heavy price for the hidden factory. One out of every three people encounter an adverse event when admitted to a hospital, according to a recent study (4/6/2011) published in the health policy journal Health Affairs. The study also found that the hidden factory is, indeed, hidden – about 90 percent of all hospital mistakes go unreported.

The cost of poor quality not only adversely affects patient outcomes (numerator) but also provider costs (denominator). The High Value Healthcare Collaborative, an organization consisting of 20 major Hospital Groups who serve 70M people, estimate that the cost of the hidden factory is more than 30% of all healthcare delivery cost. These costs create a significant drag on productivity.
Why do we measure? We all know that what gets measured gets improved. Healthcare leaders should deploy a system of quality and performance metrics to control and improve overall healthcare quality.

Click picture to follow link

Improving Quality

The figure below is an adaptation of the Deming Chain Reaction. It illustrates the affect that improving quality has on productivity. It states that when provider organizations improve quality, their costs go down. Their costs go down to the tune of 20 – 40% of total operating expenses. The decrease occurs because the costs of wasted effort reworking problems, correcting medical errors, reassuring dissatisfied patients and reconciling invoices are eliminated. As these costs go down, productivity naturally improves. Productivity improves because of the increased productive capacity of human capital, technology and working capital in producing favorable patient outcomes.
Better patient outcomes and the termination of the hidden factory lead to greater profit margins and enhanced economic value. The additional economic value funds growth and innovation, which leads to improved healthcare quality and high value jobs.

Quality and Performance Metrics – Best Practices

When designing a system of key performance indicators, an organization should follow seven proven practices:

1. Metrics should be defined and understood by all within the organization. Operational definitions help clearly define what is being measured. There are three basic elements of an operational definition: the measure, the instrument being used, and the procedure for measuring.

2. Performance metrics should be strategically integrated for tracking daily operations. Good performance metrics are engineered based on cause and effect relationships. In the world of statistics this is called engineering an explanatory response distinction; where the extent of an outcome is leveraged by the degree of influence a decision maker’s actions has on organizational processes.

3. Data derived from measurement systems contribute to operational and strategic decision-making. This practice supports the principle of management-by-fact where decision makers not only understand the activities and work products of their organizational processes, but they also track performance records over time and keep numerical facts for analysis and decision-making.

4. Metrics should be compared with industry ratios and benchmarks. Comparisons should represent best practices for similar activities, inside or outside the health care industry. Such data might be derived from surveys, published and public studies, participation in indicator programs or other sources.

5. Performance results should be trended over time and communicated cross functionally and vertically within the organization.

6. Measurements should align with organizational critical success factors and strategic plans. Doing so empowers leadership to review progress and assess organizational performance relative to strategic objectives and action plans.

7. Metrics should ultimately impact a financial component. Healthcare delivery organizations are not immune from the virtues or vices of capitalism; it must create economic value to sustain itself.
Quality and Performance Metrics an Evaluation

Quality and performance metrics should collect and analyze data on three essential perspectives: operational excellence, value proposition, and economic value.

Operational Excellence

Operational excellence is defined as the extent to which the core administrative and clinical functions are managed efficiently. Operational excellence is a key driver of patient outcomes and economic value. Appropriate metrics should evaluate the extent to which the professional expertise, technology and protocols deliver care productively. Metrics should track output, cycle times, cost and defect levels.

Value Proposition

Healthcare delivery organizations primarily extend value to patients, their families and third party payors. Metrics should evaluate the quality of healthcare outcomes and the degree to which the outcomes are favorable or unfavorable over the care cycle. They should also measure the extent to which the needs, attitudes and perceptions of the patient and their families have been served (patient satisfaction). Performance metrics should also measure the extent to which administrative functions satisfy payor requirements.

Economic Value

Key performance indicators should evaluate the extent to which healthcare delivery operations adequately provide financial surpluses or profits to sustain its operations and fund long-term growth. Performance metrics should include measures of financial return, financial viability and budget performance.
Quality and Performance Metrics – Examples

Poudre Valley Health System (PVHS) is a 2008 recipient of the Malcolm Baldrige National Quality Award. The health system is a locally owned, private, not-for-profit provider to residents of northern Colorado, Nebraska, and Wyoming. PVHS has an abundance of performance measures; this article provides three examples for your consideration.

Example – Operational Excellence Metric

For efficiency, PVHS’s measures OR turnaround times and measures on time first case starts as a metric for effective resource utilization.

Example – Value Proposition Metric

As the best key performance indicator of cardiac outcomes, PVHS focuses on acute myocardial infarction (AMI, heart attack) patient mortality rates for six months after hospitalization. This metric is also viewed as a key measurement of outpatient care provided after discharge.
Example – Economic Value Metric

As a key performance indicator of economic value, PVHS monitors profit per discharge. Profit per discharge is a critical success factor, which enables PVHS to maintain financial sustainability. The organization monitors profit per discharge to ensure the viability and sufficiency of investments for the future.

![Figure 7.3-1: Profit per Discharge]

PVHS uses a comprehensive system of strategic and operational metrics by which to analyze its operations and progress towards its strategic objectives. Does measurement work for healthcare? The market and community it serves has many requirements, among them being serviceability, high quality care and low cost. PVHS maintains its industry position as a low-cost provider in its market. Since 2001, the systems charges have been consistently lower than the competition while its profit per discharge surpassed the U.S. top 10 percent. If you are keeping score, then you understand that PVHS is winning.

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To learn more about establishing a system of performance metrics, Click: TPMG Key Performance Indicators and Dashboards
Selected References


