BRIDGING IDEAS TO OPERATIONS

A guide to using balanced scorecards to translate vision into success | Fall 2015

Why do so many hospital strategies fall short of their potential? Because, despite best intentions by leadership, lofty statements like "the best", or "most trusted" do not translate well into actionable objectives for the team on the ground. To be executed upon, these strategies need to be converted into an actionable set of objectives and projects.

The balanced scorecard framework, when utilized appropriately, provides this connection between the organizational strategy and the day-to-day execution of the objectives, allowing for a common set of key performance indicators. This enables ongoing monitoring of a successful transformation of vision into organizational success.

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Introduction

Long on Vision – Short on Execution

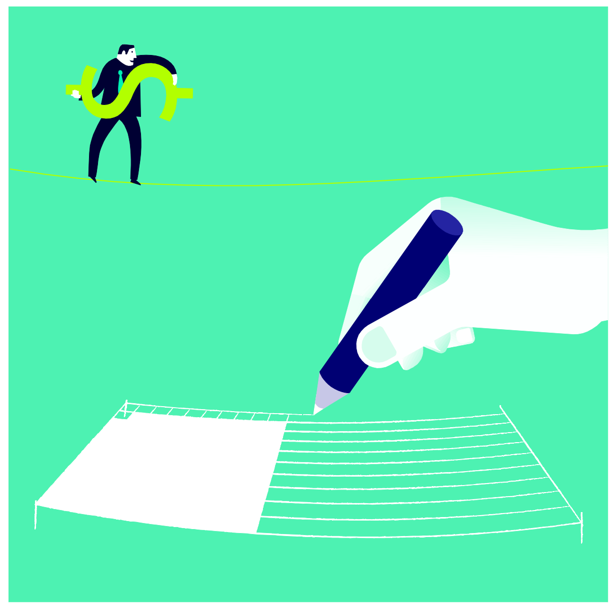
Healthcare organizations are being thrust into the information age, facing a shifting landscape of their business models, encountering increasingly fierce competition and battling shrinking margins. The ability to successfully execute a defined strategy has never been more paramount to a hospital's ongoing ability to deliver on its mission.

Research on this subject was recently published in *Fortune* by Charan and Colvin. It led with a provocative title: "Why CEOs Fail". Their research pointed to the answer, and it was shockingly simple. CEOs failed when they were unable to fully execute their strategy. This was an amazing conclusion because it stood in contrast to what industrial economists had been telling us for years—that firms with well-formulated and hard-to-imitate business strategies emerge as the winners. Charan and Colvin's article suggested that firms whose strategies were merely reasonable but executed fully could be the most successful. This rationale shifts the focus from strategy formulation to strategy execution—reinforcing the belief that relying solely on formal rules, policies, and procedures will not result in outstanding anything… be it growth, service, innovation, or quality.

This paper provides an overview of a strategic management framework, *The Balanced Scorecard*, originally developed through research conducted at Harvard Business School and increasingly utilized as a strategic management framework across various industries, including many healthcare providers.

The purpose of this paper is to highlight how this framework can be used by healthcare providers to translate strategy into action and bring about insights that help healthcare organizations better achieve their visions.

Ellis & Adams is a research and consulting firm with offices in Austin and Nashville. The firm's mission is to identify and apply technologies that improve public health.



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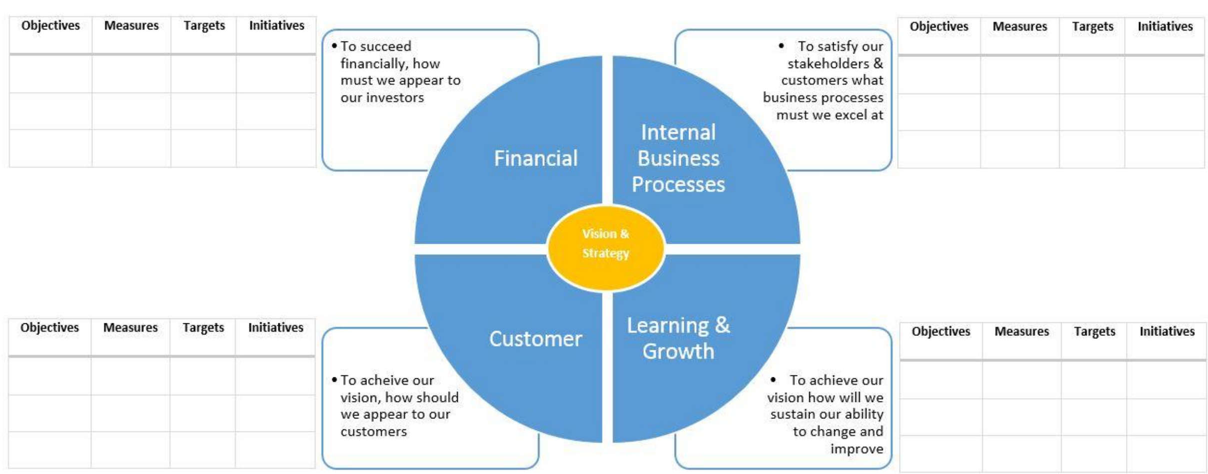
The Balanced Scorecard Framework

Most hospitals track financial metrics to measure organizational performance. While financial measures are essential for effective management, the challenge with financial measures as the sole measure of performance is that these are lagging indicators, telling us how well we did in the past. This is akin to driving a car by looking through the rearview mirror. Our only perspective is what we have done, losing the insight into what comes ahead.

In 1992, Robert S. Kapan and David P. Norton began publishing research that introduced a framework for organizations to track and monitor performance that included insight into the leading indicators that materially contributed to financial performance.

During a yearlong research project, which included companies at the leading edge of performance measurement, the authors devised a ‘‘balanced scorecard’’— a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken, but it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization’s innovation and improvement activities—measures that are the drivers of future financial performance. A balanced scorecard asks you to consider your company’s mission and strategy from four key perspectives:

1. How do customers see us?
2. What internal processes must we excel at?
3. How can we continue to improve and create value?
4. How do we appear to investors?



Perspectives

1 - Patient Perspective

How should patients see us? Hospitals frequently have measures that are used to track how they are performing from their patient's perspective. These can include Hospital Consumer Assessment of Healthcare Providers and Systems (HCAPS), Patient Reported Outcome Measures (PROMs) or Standard Sets such as those developed by the International Consortium for Healthcare Outcomes Measures (ICHOM).

The balanced scorecard requires the hospital to translate the mission into specific measures appropriate for the strategy of the organization, generally defined in terms of time, quality, performance and cost. The important factor in establishing the customer perspective scorecard is to identify those measures that properly capture how the hospital service is contributing to creating value for its patients, forcing the hospital to view its performance through the patient's eyes.

2 - Internal Business Processes

What must we excel at? Patient-based measures are important, but they must be translated into measures of what the hospital must do internally to meet its patients' expectations. Patient satisfaction derives from processes, decisions, and actions occurring throughout the hospital. Managers need to focus on those critical internal operations that enable them to satisfy patient needs.

The internal measures for the balanced scorecard should stem from the business processes that have the greatest impact on customer satisfaction—factors that affect cycle time, quality, employee skills, and productivity, for example. Hospitals should also attempt to identify and measure their core competencies and the critical technologies needed to ensure continued market leadership. Hospitals should decide what processes and competencies they must excel at and specify measures for each.

3 – Innovation and Learning Perspective

Can we continue to improve and create value? A company's ability to innovate, improve, and learn correspond directly to the company's value. Only through the ability to provide new and improved services, create more value for patients, and continually improve operating efficiencies can a company penetrate new markets and increase revenues and margins.

To ensure consistent focus on innovation and learning, the hospital must develop measurements to assess its performance. These can include metrics derived through *Discovery Driven Growth* to assess and rank opportunities for further value-add to patients, including regulatory revision impacts such as those introduced through shared savings programs, bundled payments and accountable care organizations.

4 - Financial Perspective

How do we appear to our investors? Understanding the financial position and setting measures for financial awareness are essential for the successful realization of a hospital's strategy. Measurement systems, including *Time-Driven Activity-Based Costing* analysis, are providing hospitals with insight into the actual cost of the patients they are seeing by medical condition and comorbidities.

Financial performance measures indicate whether the company's strategy, implementation, and execution are contributing to bottom-line improvement. Establishing profitability measures and targets by patient and medical condition, with accurate real-cost analysis vs. a proxy utilizing charges, allows the organization to garner insight into the value added per dollar spent.

Management Processes

Implementing the measurement process alone will not result in the achievement of an organization's vision. To realize a vision, the measurement system must be governed through a set of management processes. This provides a means to implement and gain feedback on performance of the organizational strategy.

Translating the Vision

Let's take one example where the mission statement has declared an intention to "support physicians and our employees in providing quality patient care in a safe and caring environment." The hospital's program manager is sitting in the field with his project team and the physician leadership council trying to make decisions, but does not know how to translate those words into the appropriate actions. This is the gap between the vision of the organization and how the team on the ground should make decisions on a day-to-day basis.

Translating this vision into metrics forces the leadership team to come to an agreement on how to assess the degree to which they are accomplishing this mission. The exercise of developing operational measures for how the organization will achieve the mission to "support physicians" allows the teams to make decisions that will best drive improvement along those measures, aligning the vision with the work.

Communicating and Linking

Delivering on a strategy begins with establishing a shared vision. All employees should understand the strategy and the key objectives they must meet for it to succeed. A tactic could include posting of results of the balanced scorecard across the organization with regular updates and a method for employees to make suggestions for achieving targets. This could help to mobilize the entire workforce to come together in working towards a common goal.

Once a process for communicating the vision and scorecard are established, the high-level objectives must be translated into business unit objectives and measures. Tools such as the personal scorecard can be developed, asking employees to establish which of their own objectives would be consistent with the business unit and corporate objectives.

Once the vision and measures are clearly understood, linking those measures to incentives can establish self-reinforcing processes. Organizations have had varying results with compensation linkage to balanced scorecards, but establishing minimum thresholds with financial or non-financial incentives motivates the team to achieve a balanced performance.

Business Planning

To set their strategic plans, senior executives often go off-site and engage for several days in active discussions. This activity produces a strategic plan articulating where the company would like to be in three, five, and ten years. This plan is then shared as a PowerPoint presentation to the board and other leadership members, then sits dormant on the executive's computer for the next 12 months.

Meanwhile, a separate resource-allocation and budgeting process run by the finance staff sets financial targets for revenues, expenses, profits, and investments for the next fiscal year. The budget it produces consists almost entirely of financial numbers that generally bear little relation to the targets in the strategic plan.

Using the balanced scorecard to integrate the strategic plan and budgeting processes creates linkages amongst the strategy, budget and ongoing reporting of progress.

Feedback and Learning

How do we know if our strategies are working or not? Environments are constantly evolving. Strategy and execution objectives that were valid when launched can be nullified by changing conditions. New threats and opportunities arise that change the landscape under which the original strategy was formulated. To adapt to this phenomenon our strategies require double loop learning.

Our strategies are based on cause and effect assumptions. The balanced scorecard measures allow for a framework to test those assumptions using the monthly or quarterly reviews to assess the causal relationships between the objective sets and their ability to drive the performance outcomes. If we successfully delivered on our objectives but the financial measures were not impacted, we learn that the theory underlying the strategy may have been flawed. This continuous learning—development of hypothesis and then ability to test for results—creates a double feedback loop that allows the hospital to refine its strategy as it continues to learn.

Conclusion:

The balanced scorecard strategic management framework can be implemented in hospitals to align the organization's management processes and focus the entire hospital on implementing a long-term strategy.

Hospitals are using the balanced scorecard in a number of ways, including alignment with community benefit and public health. Linking and integrating the financial and non-financial measures through using a balanced scorecard management framework can help identify and align strategic initiatives, clarify and update strategies, and guide communications and connecting of strategies throughout the hospital.

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