CHAPTER 2

Assessing the Starting Point

Some health systems are better than others at managing large-scale performance improvement (PI) projects and achieving targeted results. Myriad factors, both internal and external, account for the success or failure of PI projects. While progressive health systems share a number of common disciplines and capabilities, five core competencies bear the most significant impact on PI achievement:

- Performance improvement leadership
- Workforce engagement
- Consumer engagement
- Physician engagement
- Data-driven management

Effective transformation begins with an honest assessment of an organization's strengths and weaknesses in these areas.

PERFORMANCE IMPROVEMENT LEADERSHIP

Organizational competencies emanate from, and are most influenced by, the collective capabilities of the leadership team. High-performing healthcare organizations build leadership teams with the skills and personal attributes required to set strategic vision

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

and direction and execute tactical initiatives to achieve organizational goals. Effective management teams foster a corporate ethos of continuous performance improvement and inspire others in the organization to lead.

Executives can take several actions to ensure the success of a PI initiative, including the following:

- *Build a shared PI philosophy and approach*. Leaders should adopt, communicate, and adhere to a unifying framework and approach to performance improvement. Models such as Lean, Plan-Do-Check-Act, and Six Sigma provide organizations with proven processes, useful tools, and a uniting philosophy to guide leaders and focus the organization.
- *Lead by example*. Progressive leaders consistently demonstrate knowledge of and commitment to PI by promoting and participating in continuous improvement work. Key leadership decisions are consistent with the espoused philosophy and culture of continuous improvement.
- *Build a culture of accountability*. Effective leaders consistently hold themselves and their leadership team accountable for performance. Organizations should build a culture of accountability characterized by clearly understood performance goals at every level. Accountability is sustained by
  - setting tactical targets and goals and assigning responsibilities and deadlines,
  - incentivizing leaders to perform as measured by relevant goals,
  - building disciplines around budget development and compliance, and

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

  - practicing data-driven decision making and requiring the same of others.
- *Invest in people*. Successful PI is driven by leaders and staff equipped with the right knowledge, skills, and tools to achieve specified goals. Organizations should invest in training leaders and staff on the improvement model and how tools and principles are applied to improve healthcare operations and outcomes. Managers should have the support of internal consultants with deep technical expertise to assist with staff development and facilitate improvement projects. Internal consultants should have specialized skills in analytics, PI tools, and PI methodologies that can be taught to other staff and appropriately applied to performance issues.
- *Focus on high-performing practices*. Successful leaders continuously seek knowledge of high-performing practices in the industry and lead the adoption of these practices. Organizations should focus on identifying internal and external practices and systems that can be adopted systematically. Benchmarking should include the use of comparative industry data, surveys, and shared practices with peer organizations.
- *Build a PI strategy and plan*. Performance improvement should support and align with the strategic goals and initiatives of the organization. In this regard, health systems should formulate annual PI strategies and goals as part of the organization's planning process. A performance improvement plan should define a portfolio of PI projects encapsulating all business units of the enterprise. The plan should identify improvement goals supported by clearly defined metrics and numeric targets. Additionally, the PI plan should delineate how PI resources and support will be apportioned to support the improvement initiatives.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

WORKFORCE ENGAGEMENT

Effective healthcare service delivery can only occur through a protean workforce that is satisfied and motivated. High-performing healthcare executives continuously sustain and strengthen workforce engagement. Specifically, these leaders

- build a transparent and supportive work culture that fosters collaboration and diversity;
- continuously communicate to all levels of the organization, particularly during major PI initiatives;
- solicit staff feedback and involvement in PI initiatives and provide forums for employees to voice concerns and ideas;
- commit resources to associates' development and job growth;
- consistently provide feedback on performance and follow through on promises; and
- institute effective systems to recognize and reward individual and group performance.

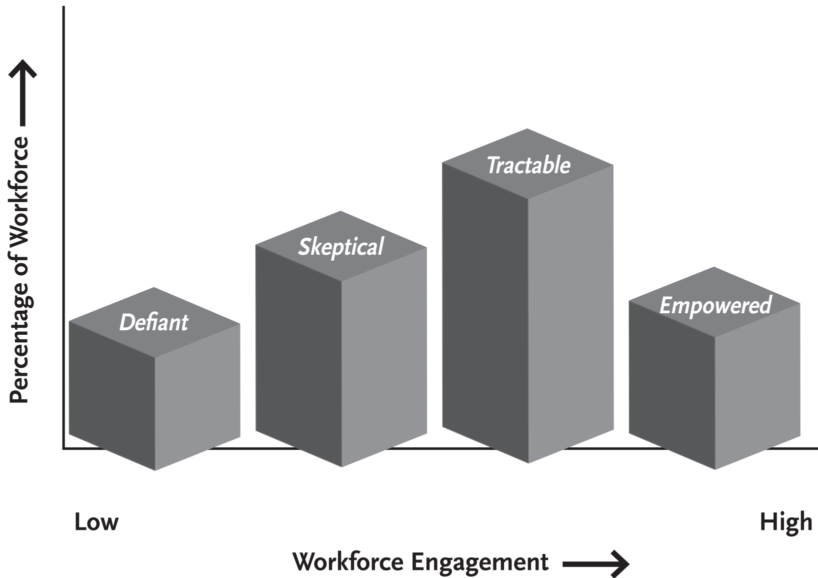
Maintaining workforce engagement can be challenging during a major PI initiative. These efforts may be seen as threatening to middle managers and line staff, as such initiatives can result in staff reductions, redesigned roles, changes in managerial responsibilities, or redeployment of staff to other departments or sites.

When an organization undertakes a major PI initiative, executives must recognize that middle managers and staff will have varying perceptions, ideas, and concerns about the project. As shown in exhibit 2.1, at the outset of a PI initiative, individuals typically fall into one of four groups along the engagement continuum: defiant, skeptical, tractable, and empowered.

Defiant staff, representing a small portion of the affected workforce, act in an uncooperative, openly negative manner and seek to undermine the organization's improvement goals. Frequently,

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

Exhibit 2.1: Measuring Workforce Engagement



defiant individuals are connected to the upper stratum of the organization's social network and influence others' perceptions and opinions. When possible, leaders should preemptively engage these individuals to understand the basis for their dissatisfaction. In some cases, defiant staff may have insights that are useful to the initiative; their contrarian view may reveal leadership blind spots or help the organization avoid unseen mistakes down the road.

Other defiant individuals may simply demonstrate a lack of willingness to cooperate. Some defiant staff may be in positions of authority and thus pose barriers for improvement. In these cases, both the organization and the individual may best be served by parting ways.

Typically representing a higher percentage of staff than the defiant group, the *skeptics* need to be encouraged to bring them along

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

to the point of committing willingly to PI. Communication regarding the "why" of the initiative must occur early in the process for this group. The organization needs to understand the basis for the skepticism and proactively address each valid issue raised. Skeptics can be useful as members of collaborative teams in providing alternative points of view. Skepticism is often based on the experiences and shortcomings of previous PI initiatives, so skeptics need to be convinced that the new initiative is different from previous efforts and that the organization will act to prevent past errors.

The *tractable* group typically represents the largest component of the workforce. This group harbors some degree of skepticism but has an open mind for change. Like other groups, tractable staff need to understand the reasons for performance improvement, what goals and outcomes are anticipated, and the process for achieving them. Tractable staff and managers have knowledge of processes and systems and can serve as effective collaborative team members and leaders.

A portion of leaders and staff will embrace change from the outset. This *empowered* group, which recognizes the need for new or reconceived processes, may include those leaders who have been pressing the organization to change. A small number of this group may exhibit enthusiasm for change but are not fully engaged. When possible, empowered staff should be assigned to leadership and collaborative team roles. Especially important is that top leaders demonstrate enthusiasm for the change, spearhead organizational communication efforts, and convert the detractors into tractable and empowered staff.

Over the life of a project, leaders should build and maintain consensus and buy-in across the organization. Ultimately, people want to understand how future changes will affect them and their role in the organization. Before launching a major PI initiative, leaders should assess workforce engagement to determine if any job categories, departments, or business units are resistant to the PI process and goals. Surveys and focus groups can provide important insights into satisfaction and perceptions, informing

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

PI leaders about barriers to overcome, available champions to drive engagement, messages to communicate, and cohort groups to address.

CONSUMER ENGAGEMENT

High-performing healthcare systems are effective at engaging patients and families in their medical care and in improving processes and systems that support care. These organizations consistently earn high patient satisfaction levels and maintain strong brand recognition in the communities they serve.

Specifically, high-performing organizations are adept at

- listening to the voice of the customer (or VOC, as used in Six Sigma terminology) by consistently monitoring community perception and patient satisfaction through multimodal methods;
- understanding distinct market segments and patient populations served, and designing programs and services around the specific needs of these groups;
- using consumer information to identify and improve process and service gaps;
- soliciting community member feedback and input routinely when planning new services or improving existing programs;
- focusing on building consumer engagement and shared decision making in patients' care to improve quality outcomes;
- investing in programs and outreach services to build awareness of and loyalty to the communities served;
- investing in service training and scripting for associates who interface with patients and families; and
- instituting service recovery procedures for follow-up on adverse service events.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

Performance improvement initiatives should produce responsive processes and systems that meet the requirements and expectations of the patients served better than the organization has done in the past. Before launching a PI initiative, those leading the effort must understand the degree to which the organization is currently meeting these requirements. Consumer information gathered toward this end helps

- reveal problem areas and process issues that impact patient service;
- identify key customer requirements for teams that are focused on process improvement;
- inform collaborative teams focused on growth or service improvement initiatives; and
- improve medical compliance, lower readmissions, and reduce the frequency of off-quality events.

Off-quality events are any occurrences of unfavorable clinical or service outcomes. Off-quality improvement is lever 12, covered extensively in chapter 8.

PHYSICIAN ENGAGEMENT

Healthcare systems cannot succeed without building alignment with their affiliated medical staff. The importance of physicians to healthcare systems is self-evident:

- Physicians have primary control over the medical care provided by a healthcare system and thereby drive most of the operating expenses.
- Surgery and other specialist-based services generate most of the contribution margin for healthcare systems.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

- Primary care physicians are instrumental in driving referrals to specialists and hospital inpatient and outpatient services.
- Affiliated physicians have a significant impact on the brand and quality (real and perceived) of a healthcare organization.

High-performing healthcare systems recognize that performance initiatives affect the physicians and practices with which they align. Involvement of medical leaders and affiliated clinical staff is recommended to foster buy-in for strategic initiative and operational changes. Like system associates, the medical staff have their share of skeptics and detractors when a PI initiative is launched. At the start of a major PI initiative, an important first step is to evaluate the degree of alignment that exists between the organization and its physicians.

As shown in exhibit 2.2, physician alignment with a health system ranges from informal relationships to integrated partnerships with shared goals and risks. Successfully aligned relationships are those supported by data and information that help clarify market opportunities and set strategic priorities. Additionally, organizations need to gather data on physician performance on an ongoing basis, in part to identify medical staff members to pursure for greater alignment. These physicians should be high-quality clinicians who have influence with other physicians and are supportive of a health system's mission and goals.

To assess how the organization's present state of physician alignment affects its performance, seek to answer the following questions:

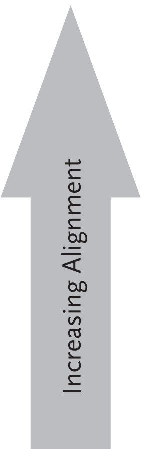
- Do physicians tend to support organizational performance initiatives, or do they actively resist such changes?
- Are hospital-based physicians (e.g., pathologists, radiologists, intensivists, hospitalists, emergency

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

Exhibit 2.2: Dimensions of Physician Alignment

Highest Value
Highest Alignment

Fact Based



Intuition Based

Filter and Find	Work with Prioritized Physicians	Work with Tested and Trusted Physicians
• Tools used to identify highest-value physicians • Tools used to find physicians with the most influence in the practicing community • Structured interactions • Maximized time and resources devoted to physician alignment	• Improved scores on publicly reported hospital measures • Targeted patient safety initiatives • Targeted growth strategies • Targeted utilization strategies • Select supply chain initiatives • Targeted referral strategies	• Integrated strategic/growth plans • Integrated financial success plans • Integrated quality plans • Integrated safety plans • Joint ventures • Most effective resource allocation
• Friendly, social • Priorities based on intuition • Priorities based on “noise”	• Collaborations developed, but may not leverage resources or time spent with physicians	• Financial plans that may have a win–lose solution • Growth plans that may have a win–lose solution • Defensive joint ventures
Relationship	Collaboration	Integration

Lowest Value
Lowest Alignment

Tactical

Strategic

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

department physicians) engaged in productivity and performance improvement in their areas of responsibility?
- Are physicians supportive of and involved in initiatives to improve patient access and throughput in their practices and in the hospital?
- Are the incentive plans of the employed physicians based, at least in part, on individual and practice productivity and quality goals?
- Are surgeons and anesthesiologists engaged in and aligned with PI initiatives for surgical procedures and supportive of efforts to improve operating room and staff utilization, room turnover, and block scheduling utilization?
- Do physician executives, including the chief medical officer, provide the leadership required for PI and organizational transformation?
- Does the organization have current data and systems in place to measure physician satisfaction and perceptions?
- Are transparent mechanisms in place with which to communicate with the medical staff?

Physician leaders should be tapped to guide or support PI initiatives. Those who fill these roles should be in positions of authority and have the respect of the medical staff. Physician leaders help the organization by

- providing direction and leadership for PI initiatives, particularly in areas related to clinical quality and patient care;
- participating in and leading collaborative teams, particularly teams focused on clinical utilization, patient throughput, and length-of-stay rate improvement;
- facilitating communications with the medical staff; and
- interfacing with other physicians on clinical issues such as changes in preference supply items, formulary

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

changes, clinical pathway development, and other patient management issues.

DATA-DRIVEN MANAGEMENT

To be effective, the management of PI initiatives must include the accurate and consistent measurement of performance throughout the organization. High-performing healthcare systems are adept at using data and information to inform decision making and measure ongoing organizational performance. Leaders must maintain effective measurement systems to

- accurately measure and report clinical quality outcomes,
- track labor and other operational expenses,
- capture workload counts across diverse service areas and accurately project future workload volumes,
- use standard data platforms as a basis for internal and external benchmarking,
- measure profit and loss performance for each component of the service portfolio,
- monitor actual performance against budget and quantify variances,
- measure staff and physician satisfaction and engagement, and
- measure patient satisfaction and perceptions.

Effective organizations use a comprehensive, balanced set of performance metrics that accurately measure key dimensions of performance. They typically employ a layered set of key performance indicators (KPIs) that track performance for the entire organization as well as its divisions, service lines, departments, programs, and cross-functional processes. Most metrics are monitored by a process for measuring planned versus actual performance. KPI information

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

should include trended data and provide comparisons against historical performance.

Healthcare organizations must maintain data transparency and accessibility for decision makers to make timely, informed decisions. Up-to-date performance data should be continuously shared with key stakeholders, including leadership, staff, and physicians.

Organizational leaders should have a high degree of competency in performance measurement, including developing metrics and understanding, analyzing, and interpreting performance data for their areas of responsibility. They should be assisted by competent analytical staff and efficient systems to support data mining and knowledge management.

Organizations should also have decision support systems in place to predict future performance and facilitate preemptive action, such as changes in strategy and tactics, contingency planning, and the automatic triggering of predefined response plans.

Data and performance metrics are a critical component of PI initiatives. Performance data and information are needed to

- identify and measure performance gaps to guide improvement teams and initiatives,
- seize economic gains from opportunities identified through PI initiatives, and
- track actual performance gains after implementation.

PRELAUNCH ORGANIZATIONAL ASSESSMENT

The strength of an organization's core competencies can largely determine the success of performance improvement projects. If gaps exist in one or more competency, implementing PI system and process changes is difficult. Leaders must preemptively confront these issues and build proficiencies concurrent with the PI initiative.

Health system leaders should gauge the organization's current performance levels against the five core competencies—PI leadership,

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

workforce engagement, consumer engagement, physician engagement, and data-driven management—before launching a major PI effort. This assessment provides a means for gaining shared understanding of performance gaps and focuses attention on areas that need to be addressed. Appendix A provides a sample assessment tool to identify areas of competency strengths and gaps. The survey should be completed by senior leaders and discussed as a group. From this exercise, the team can draw conclusions on areas requiring attention during the redesign and implementation phases.

A prelaunch assessment should also include a quantitative review of the organization's current operating and market performance. Such a review may include a summary of the following PI elements:

- Current versus planned profitability and operating margins for the organization as a whole and for key operating units
- Operating cost trends and performance against budget
- Current engagement and satisfaction scores for key constituent groups, including patients, staff, and physicians
- Overall clinical quality metrics, such as the Centers for Medicare & Medicaid Services (CMS 2017b) Quality Core Measures
- An assessment of competitors and market share data for key services

Prelaunch assessments may also include performance benchmarking analyses. Most healthcare organizations use comparative data to evaluate performance in many areas of the operation, including labor, supplies, clinical utilization, patient satisfaction, and financial and clinical quality performance. Benchmark data are used by organizations and leaders to

- understand how performance compares to peer hospitals,
- gauge performance gaps relative to competitors,
- set performance standards and budgets,

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

- identify cost and PI opportunities, and
- identify high-performing industry practices.

In addition to external comparisons, the organization may benchmark the current state to historical performance or, in the case of large systems, compare the internal performance of similar programs or departments.

The organizational assessment is a crucial first step in the performance improvement process. Assessing the current state at the start of a PI effort provides insights into opportunities and targets, competency gaps that must be addressed, and strengths that need to be leveraged. A summary of the assessment should be reviewed by the senior leadership team to ensure that its members understand the need for change, agree with the targets and areas to pursue, and buy into the redesign process.

The assessment also provides leaders the information needed to communicate

- business and market conditions, or the organization's current financial position, that require the organization to improve operational performance;
- improvement opportunities that have been identified and the data and rationale for how these conclusions were reached;
- the process whereby improvement opportunities will be pursued and the timing requirements for the project; and
- roles and responsibilities of leadership going forward.

IDENTIFICATION OF IMPROVEMENT OPPORTUNITIES AND GOAL SETTING

In the initial phase of a major performance improvement project, an organization should identify operational gaps and quantify the magnitude of the improvement opportunity. Performance gaps are

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

typically expressed as financial opportunity—cost savings or revenue growth—but can also represent incremental gains in clinical or service quality measures, cycle time improvement, and other metrics.

Performance improvement initiatives should focus on areas that will yield the greatest benefit to patients and the organization. For example, leaders can identify departmental productivity issues and improvement opportunities from multiple sources, including the following:

- *Benchmarking*. The department or program performs below similar benchmark institutions relative to cost or quality outcomes.
- *Productivity monitoring*. The department's productivity has been trending downward over the past several reporting periods.
- *Budget*. The department consistently exceeds its operating budget.
- *Workload*. Workload volumes have dropped without a corresponding reduction in staffing and operating expenses.
- *Premium labor*. The department uses a high number of overtime hours or uses a high portion of agency or contract hours.
- *Access and throughput*. The department has process issues with patient access and throughput that drive up staffing costs.
- *Opportunity size*. Opportunities should be prioritized in part on the basis of the size of the potential economic or quality gain. Large departments with high-paid professional staff generally have more savings potential than support areas and small departments have.

Leadership should also consider additional factors when targeting areas for improvement. Low patient or physician satisfaction could be an artifact of poor processes, insufficient training, or any

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

of a number of other factors. For example, employee dissatisfaction and turnover could indicate problems with staffing, role design, or leadership, which also results in reduced productivity.

Categories of Performance Improvement Opportunities

Performance improvement opportunities in a health system can be grouped into seven categories:

- *Labor expense*—lowering hours and labor costs per unit of service, reducing premium pay use
- *Nonlabor expense*—lowering costs of supplies, purchased services, and professional fees
- *Clinical utilization improvement*—reducing cost per case and length of stay
- *Off-quality improvement*—reducing costs and incidence of off-quality events
- *Portfolio management*—strengthening the performance and mix of services provided
- *Revenue cycle improvement*—maximizing net revenues through improving components of the revenue cycle
- *Revenue growth*—increasing top-line revenues through growth in market share and patient volumes

The prelaunch assessment should include an estimate of the opportunity and an improvement target. The format for summarizing this information can vary, depending on the scope of the improvement project and how the organization chooses to structure the initiative. Exhibit 2.3 is an example of target setting for a hospital system. This organization identified seven potential initiatives, three of which focus on major service lines. Each initiative includes a measure of the total expense base reflecting the scope of areas under evaluation. The projected savings percentages are

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

Exhibit 2.3: Example of Improvement Target Setting

		Improvement		Projected Savings		Projected Added CM*	
Potential Initiatives	**Expense Base**	**Low**	**High**	**Low**	**High**	**Low**	**High**
Portfolio review	$14,379,930	2.8%	6.3%	$402,638	$905,936	$321,198	$392,562
Cardiac service line	$20,014,145	3.0%	6.3%	$600,424	$1,260,891	$427,464	$769,435
Neurosciences service line	$9,822,419	2.4%	4.6%	$235,738	$451,831	$42,830	$77,094
Orthopedics service line	$9,216,980	4.4%	9.0%	$405,547	$829,528	$54,650	$109,300
Revenue cycle	$6,105,014	2.0%	4.5%	$122,100	$274,726	$3,200,000	$6,200,000
Supplies	$24,679,089	9.2%	17.4%	$2,270,476	$4,294,161	$0	$0
Productivity	$19,882,380	7.9%	15.7%	$1,570,708	$3,121,534	$0	$0
Overall	**$104,099,957**	**5.4%**	**10.7%**	**$5,607,632**	**$11,138,607**	**$4,046,142**	**$7,548,391**

* Calculated on the basis of additional cases through improved length of stay or growth through portfolio enhancement; does not include increased case management (CM) from cost reductions.

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.

based on a combination of internal performance targets and external benchmarking results. Calculating the target as a range is useful to identify both the minimum improvement required and a stretch target. This example also includes a potential added contribution margin that is targeted on the basis of improvements in the revenue cycle and growth opportunities. The leadership team can use these targets to charter collaborative teams for each of the seven PI initiative categories.

The endpoint of the assessment phase is achieving consensus among the executive leadership team on the findings and conclusions. Specifically, agreement should be reached on the following points:

- The internal and external factors driving the need for margin improvement
- The organization's identified core strengths and gaps
- The conclusions from the quantitative assessment, including support for external benchmarks
- The specific PI initiatives to be embarked on and the recommended targets for each
- Timelines, including start and end dates

Copying and distribution of this PDF is prohibited without written permission.
For permission, please contact Copyright Clearance Center at www.copyright.com.