

Building and Implementing a Balanced Scorecard and Strategy Map at Ripley County Memorial Hospital

September 18, 2009

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Overview

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Background

- **PMI is working with over 200 hospitals and healthcare organizations on Balanced Scorecard implementation and strategy execution**
- **The Balanced Scorecard is best considered a toolbox for helping hospitals improve performance**
 - Assists Board in seeing performance as more than financial
 - Assists Leadership Team promote teamwork across departments
 - Assists Department Managers in communicating with and involving staff
 - Assists Staff in understanding how their daily responsibilities connect to the “big picture”
- **Potential for The Balanced Scorecard to help hospitals lies in three areas:**
 - Disciplined execution of strategy
 - Tool: Strategy Map
 - Optimizing performance measurement
 - Tools: Measures, Monthly/Quarterly BSC Reports
 - Building capacity and accountability
 - Tools: Developing strategy awareness, selecting department-specific indicators, action planning

Background

Execution of Strategy Has Become the Corporate Challenge of Our Times!

- **“Strategy has never been more important”**

Business Week

- **“Less than 10% of strategies effectively formulated are effectively executed”**

Fortune Magazine

- **“The problem is that our age’s fascination with strategy and vision feeds the mistaken belief that developing the right strategy will enable a company to rocket past competitors. In reality, strategy is less than half the battle. .. In the majority of cases – we estimate 70% – the real problem isn’t [bad strategy].... It’s bad execution.”**

Why CEO’s Fail

Ram Charan and Geoffrey Colvin

Fortune (6/21/99)

Background

Execution of Strategy Has Become the Corporate Challenge of Our Times!

- **73% of companies that outperform their peers have a formal process for communicating strategy to employees.**

2006 Balanced Scorecard Collaborative Survey

- **Strategy execution is the #1 concern of CEOs worldwide.**

The Conference Board, 2007 CEO Challenge

- **Only 12% of companies successfully execute their strategy.**

Balanced Scorecard Collaborative and Cognos joint study, 2006

The Principles of a Strategy Focused Hospital

TRANSLATE STRATEGY

- q *Mission / Vision*
- q *Strategy Maps*
- q *Balanced Scorecard*
- q *Targets*
- q *Initiatives*

ORGANIZATION ALIGNMENT

- q *Hospital*
- q *Departments*
- q *Providers*
- q *External Partners*



EVERYONE'S JOB

- q *Strategic Awareness*
- q *Goal Alignment*
- q *Linked Incentives*

EXECUTIVE LEADERSHIP

- q *CEO Sponsorship*
- q *Executive Team Engaged*
- q *"New Way of Managing"*
- q *Accountable for Strategy*
- q *A Performance Culture*

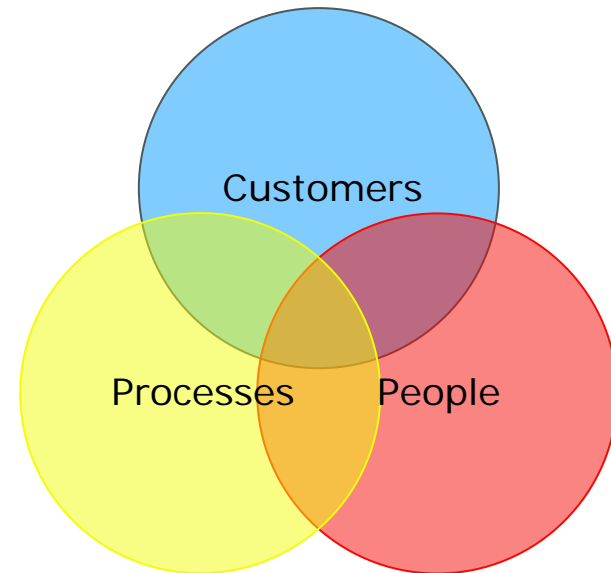
CONTINUAL PROCESS

- q *Linked to Budgeting*
- q *Linked to Ops. Mgmt.*
- q *Management Meetings*
- q *Feedback System*
- q *Learning Process*

Creating Long Term Value through the Balanced Scorecard

The Balanced Scorecard Focuses on Factors that Create Long-Term Value

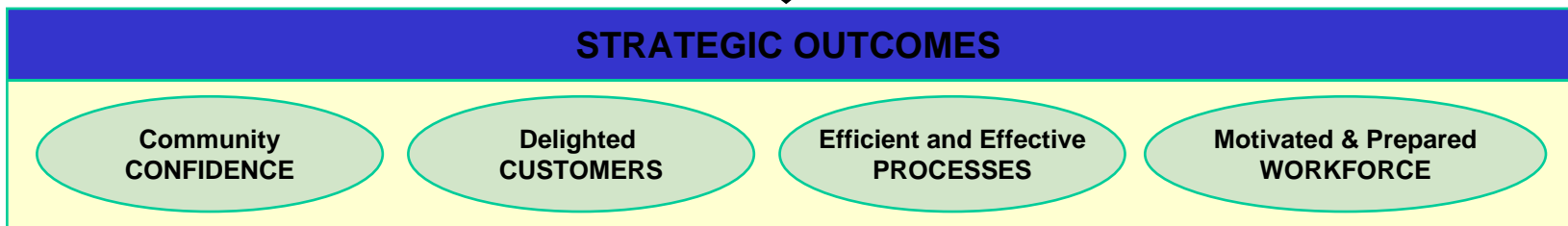
- **Traditional financial reports look backward**
 - Reflect only the past: spending incurred and revenues earned
 - Do not measure creation or destruction of future economic value
- **The Balanced Scorecard identifies the factors that create long-term economic value in an organization, for example:**
 - Customer Focus: satisfy, retain and acquire customers in targeted segments
 - Clinical/Business Processes: deliver the value proposition to targeted customers
 - Organizational Learning & Growth



Creating Long Term Value through the Balanced Scorecard

Organizations Often Have A Gap Between Strategy and Action

Strategy Is a Step In a Continuum



Creating Long Term Value through the Balanced Scorecard

The Balanced Scorecard Is A Bridge To Close That Gap

Strategy Is a Step In a Continuum



What is a Balanced Scorecard?

The Balanced Scorecard is a framework that helps organizations translate strategy into operational objectives that drive both behavior and performance.



The Balanced Scorecard is a way to collect data and information that helps organizations move from strategies to action that improves performance.

Adapted from Kaplan and Norton's *The Strategy Focused Organization*

Balanced Scorecard Process at Ripley County Memorial Hospital

- **WORK STEP 1 PROJECT INTRODUCTION and STRATEGY REFINEMENT**
 - Kickoff November 18, 2008

- **WORK STEP 2 STRATEGY MAPPING and DATA COLLECTION SET UP**
 - *Strategy Mapping* is a hands-on process that occurs once the hospital board and executive management team have developed and endorsed the linkage of the facility's long range Strategic Plan into the Balanced Scorecard framework.

- **WORK STEP 3 DATA COLLECTION and QUARTERLY REPORTING**
 - *Data Reporting* includes a quarterly Balanced Scorecard that displays the hospital's strategic performance in a simple, one page report.

- **WORK STEP 4 PERFORMANCE IMPROVEMENT ACTION PLANNING**

- **WORK STEP 5 PERFORMANCE MONITORING**

RIPLEY COUNTY MEMORIAL HOSPITAL



NO SMOKING

NO SMOKING



Our Thanks to:



The Mountain States Group

**Hartzell Cobbs, Rel.D.,
Executive Director**

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Program Manager**

**Linda Powell
Project Associate**

And Also to:



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Principal

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Analyst

Our Old Strategy Focus

Our previous strategic initiatives took the form of seven smoke stacks:

1. Quality, Value, Service, & Constituent needs
2. Economics
3. Productivity
4. Staff Development
5. Organizational Development
6. Creativity
7. Innovation

Old Dashboard Indicators

- Average Medicare Length of Stay (4 max)
- Ancillary % of Inpatient Rev. (60% min)
- Outpatient Rev% of Total Pt. Rev (50% min)
- Incomplete Medical Records (10% max)
- Net Days in Accounts Receivable (45 max)
- Bad Debts as % of Total Patient Rev. (3% max)
- Labor Hours per Adjusted Pt. Day (19 max)
- Payroll as a % of Total Patient Rev. (33% max)
- Overtime as a % of Total Payroll (2% max)
- Supply Expense as % of Pt. Rev. (10% max)

Our New Strategy Map

- **FINANCIAL GROWTH:** To meet the goals and objectives in the hospital's mission statement.
- **CONSTITUENTS:** To meet the needs of our customers, and provide what they want and expect.
- **CLINICAL & BUSINESS PROCESSES:** To meet the needs of our Patients and the healthcare community.
- **LEARNING & GROWTH:** To development our culture, skills, training, and technology.

Balanced Scorecard Data Entry

- Bad Debt Expense
- Gross Patient Revenue (Charges)
- Net Patient Revenue
- Patient Accounts Receivable
- Net Revenue Per Day
- Total Acute Days
- Total Acute Discharges
- Case Mix Index
- Outpatient Gross Charges
- Number of Incomplete Medical Records
- Total acute discharges
- Total Headcount Separated From The Hospital
- Total Nursing Headcount At Beginning Of Period
- Staff Headcount Separated From The Hospital
- Total Staff Headcount At Beginning Of Period

What's a Strategy Map?

- A diagram which reflects layers of initiatives which feed upward to other initiatives which continue to feed upward to ultimately support a desired outcome.
- A great little tool to help ‘close the gap’ between ‘strategy’ and the ‘action’ needed to execute the strategy.
- A simple way to provide clear direction, enhance an organization’s focus, drive behavior, drive performance, and achieve desired results.

What's a Strategy Map?

- A one-page illustration which can be shared with the Board, Leadership, and all Employees – showing, in very simple terms, how smaller departmental objectives will lead to the achievement of larger hospital objectives, which will lead to overall mission effectiveness.

New Scorecard Indicators

FINANCIAL GROWTH

- Out Pt. Gross Charges as a % of Total Gross Charges Par: 30%
- Supply Expense as % of Net Patient Revenue Par: 7%
- Salary/Benefit Exp as % of Total Operating Expense Par: 50%
- Paid Hours per Adjusted Patient Day Par: 35

CLINICAL & BUSINESS PROCESSES

- Bad Debt Percentage Par: 7
- Cash Collections as % of Net Revenue Par: 96%
- Case Mix Index Adjusted Acute ALOS Par: 4
- Percentage of Incomplete Medical Records Par: 5%

LEARNING & GROWTH

- Percentage of Employees Separated for any reason Par 3%

The Balanced Scorecard

- Provides an ongoing linkage between monthly financial statements and the strategic plan
- Fosters an atmosphere of greater accountability on the part of the management team
- Creates a strategic framework that drives individual as well as organizational performance

Byproducts of the Balanced Scorecard Program

- Achieve greater levels of engagement by creating a competitive spirit and a desire to excel over other like-size organizations
- Exploit the power of positive feedback, by recognizing and rewarding those whose actions have contributed to positive results
- The unveiling of undiscovered barriers within the organization that stand in the way of Mission accomplishment (aberrant behaviors or situations that may be destructive to the organization).

Byproducts of the Balanced Scorecard Program

- Enhancement of accountability and sustained action on the part of managers and supervisors.
- The opportunity to assist a new member of the management team in making the journey from UNKNOWING INCOMPETENCE to KNOWING COMPETENCE

STRATEGY & ACTION

- Look carefully at the next two slides.
The red slide represents STRATEGY;
the green slide represents ACTION.

STRATEGY

Strategic Thinkers excel by blending their strong drive to develop goals with a desire for precision, accuracy, and quality. They are analytical, logical, and philosophical in their search for meaning, truth, and purpose in their work. They are particularly adept at drawing incisive conclusions from data and research.

ACTION

Strategic ‘Drivers’ are people who create activity and set the pace within an organization. Due to their desire to lead, they quickly take charge of work settings by accepting established goals and delegating tasks. They are not afraid to take risks or strong action in order to achieve desired results.

Simply put . . .

An Organization's strategy is only as good as its ability to execute that strategy.

It's estimated that 70% of the time, problems don't arise because of bad strategy, but because of bad execution of that strategy.

April 13, 2009

**Mr. Thomas J. Wroble
Revenue Officer
Internal Revenue Service
1122 Town & Country Commons
Room 142
Chesterfield, MO 63017**

Dear Mr. Wroble,

As a follow-up to our meeting on March 11, 2009 in Cape Girardeau, this letter and attached documentation will serve as our hospital's Proposal for Resolution which you requested prior to April 19, 2009.

Our Proposal for Resolution is a three-part plan:

- (a) A reduction in Ripley County Memorial Hospital labor hours resulting in a savings of approximately fourteen thousand dollars per pay period. (please see blue attachment)
- (b) A partnership with another larger hospital in Missouri that might be interested in a joint venture, management affiliation, or the acquisition of selected RCMH assets. (please see orange attachment), and,
- (c) An on-line application to the TRANSFORM MISSOURI INITIATIVE for 1.9 million in funds to retire our IRS debt and preserve 146 jobs in Ripley County. (please see pink attachment)

If I can provide you with additional information on any of the above elements of our plan I will be happy to do so, and I hope you will accept my sincere appreciation for your willingness to meet with us on March 11th.

Sincerely yours,

Bob Garrison
CEO

WHY WE
HAD TO
SCALE
BACK