BALANCED SCORECARDS FOR SMALL RURAL HOSPITALS: Concept Overview & Implementation Guidance

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A. INTRODUCTION

The purpose of this publication is to describe the process of implementing a *Balanced Scorecard (BSC)* initiative in a small rural hospital setting, including how to identify if an organization is ready for the implementation phase, what the various steps are in the process, what key principles need to be considered that are common to rural hospitals, and what a rural hospital Balanced Scorecard would look like.

This effort was undertaken because of the belief that the Balanced Scorecard can be useful and adaptable to small rural hospitals, but that the process and approach must be tailored to their requisite resources (time, expertise, money) in order for implementation to be practical and successful. Additionally, this publication is an attempt to describe a more relevant implementation model designed to better fit the needs of rural hospitals.

B. BRIEF HISTORY OF BALANCED SCORECARD EFFORTS

Since the early 1990s when Robert Kaplan, a professor at Harvard University and David Norton, a consultant from the Boston area, developed the Balanced Scorecard, there have been many different Balanced Scorecard applications in all types of industries both in the United States and internationally. Several articles and books have been written on the Balanced Scorecard methodology and there are a variety of software products to assist and expedite implementation of this performance measurement process. Historically, performance improvement systems have focused on measurements and indicators alone. What is unique about the Balanced Scorecard approach, in contrast to other methods, is that it links strategy with

performance and goes beyond the traditional financial metrics in determining whether or not an organization has been successful. Integral to BSC is the notion that an organization's strategies and their execution are among the most important factors in performance improvement.

The shift from an industrialized economy to a knowledge/information economy has necessitated a change in how value is determined. According to management researchers, value is now associated more with intangible assets (employees/knowledge) than traditional tangible assets (equipment/plant). Instead of focusing solely on historical financial data, new management concepts were needed to more effectively assess how well an organization was performing. Only 35percent of respondents to a Performance Measurement Survey rated their current performance measurement systems as effective or very effective (American Institute of Certified Public Accountants and Lawrence S. Maisel, 2001).

In 1999, a Fortune magazine story suggested that 70 percent of CEO failures came not as a result of poor strategy, but of poor execution. In addition, it is estimated that nine out of ten organizations fail to implement their strategies[1].

Over the past twelve years, several methodologies have been developed in various industries to address the need for a more "balanced" way to assess and manage performance (e.g. Six Sigma, TQM, CQI, etc.). The fields of organizational development and human performance technology have blossomed in this decade, all focused on better methods to assess and manage performance in organizations.

The Balanced Scorecard (BSC) now has a documented history of successful implementation in several industries including healthcare. Benefits of implementation have included:

[1] Balanced Scorecard: Step-by-Step: Maximizing Performance and Maintaining Results; Paul R. Niven; 2002; John Wiley & Sons, Inc., New York.

- increased financial returns;
- greater employee alignment to overall goals;
- improved collaboration; and
- unrelenting focus on strategy.

Most healthcare BSC implementations, such as those profiled in Kaplan and Norton's literature, have occurred in urban centers that have larger and more specialized staff, IT capacity, and resources. Smaller hospitals in Arkansas, Michigan, Minnesota, Mississippi, and Pennsylvania have also used the BSC with promising outcomes.

The challenge is to find a way to implement the Balanced Scorecard in small rural hospitals that is meaningful, relevant, and affordable.

C. BACKGROUND

Definition of Balanced Scorecard

The Balanced Scorecard is a *tool that translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system.*[2] The Balanced Scorecard is an approach for driving organizational improvement toward pre-selected goals which keeps track of progress through carefully selected measures. The Balanced Scorecard is also an integrated management system consisting of three components: 1) strategic management system, 2) communication tool, and 3) measurement system.[3] It results in a carefully selected set of measures derived from and linked to an organization's core strategies. The measures selected for the scorecard represent a tool for

[2] Balanced Scorecard Collaborative. http://www.bscol.com
[3] Balanced Scorecard: Step-by-Step: Maximizing Performance and Maintaining Results; Paul R. Niven; 2002; John Wiley & Sons, Inc., New York.

leaders to use in communicating to employees and external stakeholders the outcomes and performance drivers by which the organization will achieve its mission and strategic objectives.

Companies are using the scorecard to:

- clarify and update strategy;
- communicate strategy throughout the company;
- align unit and individual goals with strategy;
- link strategic objectives to long term targets and annual budgets;
- identify and align strategic initiatives; and to
- conduct periodic performance reviews to learn about and improve strategy.

Traditional Perspectives

There are a number of "balances" in the BSC, among which are the balance or equilibrium between four historical domains or perspectives considered to be mutually linked in terms of strategy and performance:

1. Learning and Growth Perspective
2. Internal Process Perspective
3. Customer Perspective
4. Financial Perspectives

Paul Niven's analogy of the Balanced Scorecard is that of a tree (see Figure 1). The Learning and Growth perspective are the roots, the trunk is the Internal Process perspective, Customers are the branches, and the leaves are the Financial perspective. Each perspective is interdependent on those below as well as those above. It is a continuous cycle of renewal and growth. Leaves (finances) fall to fertilize the ground and root system, which stimulates growth throughout the organization. In this analogy, learning and growth is the foundation on which all

other perspectives are built. For example, if a hospital assesses patient satisfaction and discovers patients aren't satisfied (Customer Perspective), one of the strategies might be the implementation of employee training in the area of customer service (Learning & Growth Perspective). Improved customer service through a reduction of wait time in the emergency room (Internal Process Perspective) can ultimately improve utilization (Financial Perspective). Refer to Figure 2. There are definite cause and effects between and among each of the four perspectives. The key is to identify the right strategies.

Figure 1

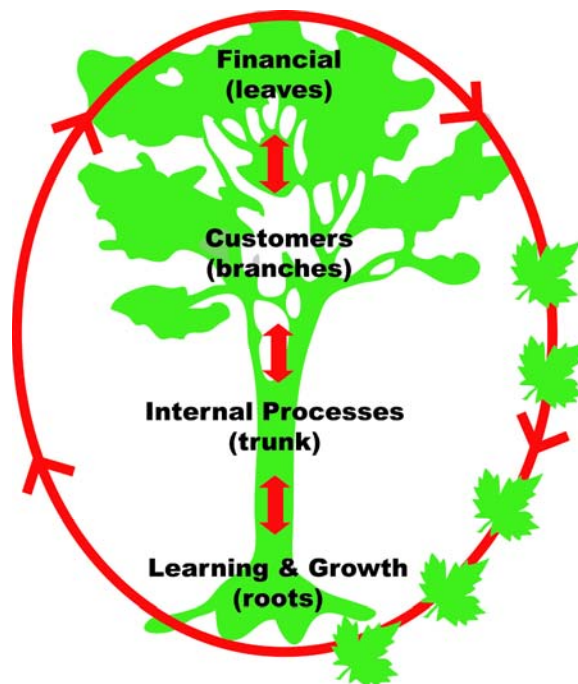
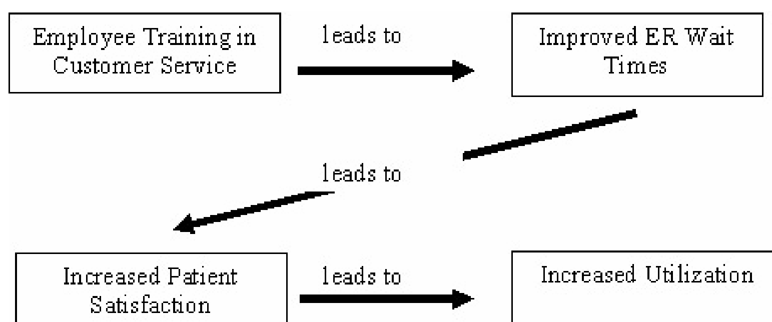


Figure 2



Balances

One of the reasons the Balanced Scorecard has been so successful is that it is a balanced approach. This balance includes:

1. Balance between financial and non-financial indicators of success
2. Balance between internal and external constituents of the organization
3. Balance between lag and lead indicators of performance

Internal constituents might include employees whereas external constituents might include physician groups or insurers. **Lag indicators** generally represent past performance and might include customer satisfaction or revenue. Although these measures are objective and accessible, they lack any predictive power. **Lead indicators** are the performance drivers that lead to the achievement of lag indicators and often include the measurement of processes and activities. For example, ER wait time might represent a leading indicator of patient satisfaction. A Balanced Scorecard should contain a variety of different measures.

D. MODIFYING THE BALANCED SCORECARD APPROACH

As stated earlier, a modified Balanced Scorecard approach is probably necessary for small rural hospitals because of a lack of infrastructure in terms of information technology, staff time and expertise, resources to pay for consultants and ongoing expenses, and the practicality and meaningfulness of existing measures. The remainder of this document will focus on the basic assumptions and principles entailed in modifying the process, the actual components of a modified Balanced Scorecard process, and suggested performance indicators that could be incorporated into a rural hospital Balanced Scorecard. Figure 3 is an example of the Balanced Scorecard model described in this publication and adapted from Kaplan and Norton.

Figure 3

Basic Assumptions

How does a rural hospital know that its strategies give attention to all aspects of performance? Do they overemphasize expense management versus revenue generation? Do they address the needs of all customers, including patients, physicians, and the community at-large? Are internal processes improved to support quality and patient satisfaction goals? Are resources applied to filling the gaps in skills and knowledge among the staff?

Rural hospitals have many initiatives running concurrently, and at any point in time, it is often difficult to know the progress (percent completion) and even if they are continuing to move in

the right direction. For those hospitals seeking to use the Balanced Scorecard as an approach for performance management, some prerequisites are required:

1. A strategic plan supported by the Board.
2. Accountability for implementation must be assigned to the Administration by the Board, which retains interest and oversight without micromanaging.
3. Individuals and departments must be provided adequate resources and support while agreeing to be held accountable, and to hold each other accountable, for BSC results.
4. Achievable and unambiguous measures of success must be selected.
5. Reporting and monitoring mechanisms need to be accessible, regular, and user-friendly.
6. The process must be simple, affordable and achievable within existing resources.

Principles

Readiness Assessment

Before attempting to implement a Balanced Scorecard process in any organization, it is essential that key leadership (administrator/CEO, department managers, board of directors, and medical staff leadership) are fully committed to the process in terms of involvement, conceptual understanding, communication, and serving as process “champions”. Without this commitment, efforts will be significantly hampered and results jeopardized. Before BSC can be successfully implemented, the organization’s mission, vision, and strategic plan must be well-defined and current. Because performance measures are dependent on the future strategies identified by the organization, they should be in place at the outset. Other factors include the need to develop a

performance management system, the financial resources available for implementation, the involvement of key individuals who manage data collection systems, and staff time. Refer to page 16 and Appendix 1 for a discussion and list of readiness assessment tools.

Engaging/Involving Leadership

Gaining the sponsorship and commitment of leadership is not easy. Most administrators have a myriad of demands that compete for their time and attention and often eliminate those ideas and activities that seem nonessential. In a study conducted for the Balanced Scorecard Report, respondents reported that the CEO, more than any other individual, was the sponsors of the Balanced Scorecard.[4] A good way to enlist CEO support is through the demonstration of results. Success stories of Balanced Scorecard implementations can be found in the literature (books/articles) and on several Websites: refer to www.bcol.com for healthcare examples.

There are signs that may signal the need for a new performance measurement system in a rural hospital. These include:

- Performance is acceptable on all dimensions except profit;
- Patients don't use the facility even when prices are competitive;
- No one notices when performance measurement reports aren't produced;
- Managers spend significant time debating the meaning of the measures;
- They haven't changed their measures in a long time;
- They have too many meetings and not enough action;
- Staff says "nothing ever changes here";
- Department managers do not work in teams effectively to make changes;

[4] Balanced Scorecard: Step-by-Step: Maximizing Performance and Maintaining Results; Paul R. Niven; 2002; John Wiley & Sons, Inc., New York.

- The same problems keep coming up because root causes are not addressed;
- Administration doesn't have time to "stay on top of everything"; and
- They recently changed their organization's strategy.

Education through well designed/delivered presentations on performance management and the Balanced Scorecard can overcome most serious objections over time. It is essential, however, that the administrator/CEO must be fully involved and committed in this effort. Developing and implementing a Balanced Scorecard is a commitment to managing in a different way – one that commits the organization to certain accountabilities and performance standards. Ron Heifetz of Harvard University writes: "The real heroism of leadership involves having the courage to face reality…and help the people around you to face reality." Effective leadership, he maintains, is influencing an organization to "face its problems and live into its opportunities…and mobilizing people to tackle touch challenges." BSC is not a "one-shot" process; therefore, those interested in using BSC should view it as a long-term process and be prepared to commit to change over a longer period of time (3 to 5 years).

Education of Internal & External Stakeholders

It is imperative that whomever initiates the process has a good understanding of Balanced Scorecard concept and theory, and can communicate this clearly to all leadership (CEO, senior administrative team, physicians, department managers, and board of directors). Leadership members need to understand this concept and be prepared to educate others in the facility. The key to successful implementation hinges on clearly communicating to everyone in the facility their respective role(s) in achieving specific performance measures and gaining organization-wide support and commitment. Appendix 1 contains an overview of the challenges faced by

nurses, managers, administrators, and board members and how the Balanced Scorecard can help with solutions.[5]

Data: Gathering, Processing, & Benchmarking

One of the key principles in the Balanced Scorecard process is identifying those indicators that accurately measure the accomplishment of strategies. There should also be a cause and effect relationship between the strategies selected and the overall mission of the organization. Another important consideration is the infrastructure for data collection. IT infrastructure varies widely among rural hospitals; some will have sophisticated IT systems, while others have virtually none. The existing facility infrastructure should be considered when implementing the Balanced Scorecard. In addition to infrastructure issues, staff expertise and time must be considered. One of the benefits of developing a Balanced Scorecard is that it should help to eliminate unnecessary collection and reporting of data by identifying only those measures that are linked to strategies. Time spent on collecting and reporting data that has no direct bearing on achievement of performance strategies can be minimized. Because an organization "has always done it this way" is not a good reason to continue.

Finally, the concept of benchmarking deserves some consideration. Benchmarking can be internal or external. With internal benchmarking, a hospital selects a set of measurements and indicators that tie to internal standards established without regard to performance by peer hospitals (e.g., maximum waiting times for an outpatient visit, the maximum time before a patient is greeted in the Emergency Department, the percentage of patient bills that are error-free). Internal benchmarking focuses on the rate of improvement rather than reaching an external standard or benchmark. External benchmarking relies on standards and measurements

[5] Provided by Stroudwater Associates

that relate to peer hospitals. Many small hospital networks, as well as vendors have relevant financial, quality, and process data available that allow hospitals to compare themselves to others of a similar size and service profile. External benchmarking data can be useful in helping to determine whether a hospital's performance is comparable to its peer group. However, external data is not always comparable between geographic regions, the cost of obtaining data may be beyond the financial resources of some hospitals, and the greatest danger to external benchmarking is regression to the mean. For example, if one hospital's days in accounts receivables are 65 and the rural average is 65, does that mean that opportunities for further improvement should be ignored? Hospitals need not rely on the most "exotic" data they can find. Using common internal indicators or using data from regional networks and alliances can provide good results while keeping costs down and reducing the staff burden for data collection.

Building Long-term Sustainability

There have been a number of companies that embark on implementing Balanced Scorecard efforts, only to discover they lack the time, commitment, and resources to ensure these efforts are integrated into everyday activities. Perhaps the information received didn't convince them of the value, or they may have chosen measures that don't accurately reflect strategies, or they didn't expect the process to be as time-consuming as it can be, or they simply failed to fully implement the process. Implementing a Balanced Scorecard is not something that can be accomplished overnight. CEOs in particular, should be patient. The process takes time, requires changes within an organization at all levels, and is not something that once completed is forgotten.

The principles outlined above should be used to guide the Balanced Scorecard implementation. There are no hard and fast rules. This may be as much art as science at this point, even though developments in the field are producing remarkable results.

E. ESSENTIAL COMPONENTS OF A RURAL BSC MODEL

The following are phases or steps in a typical Balanced Scorecard process. Within each phase are activities that need to occur. This section starts with an overview of each of the phases and then explores each phase in greater detail. This process is an adaptation of the process described by Kaplan and Norton.[6]

Phases: (refer to Figure 4)

Readiness Assessment: identify needs, resources, and confirm leadership commitment.

Planning: identify leadership and participants for BSC team, complete a review of mission/vision/values/strategies, assign strategies to BSC perspectives, develop strategy map, identify and agree upon measures, and develop implementation plan.

Technical implementation: visions, strategies, measures entered into system via software or training, building scorecards, setting target and alarm (or alert) levels, data consolidation rules, defining graphs and reports (presentation of data), importing historical measurement data/ creating reports.

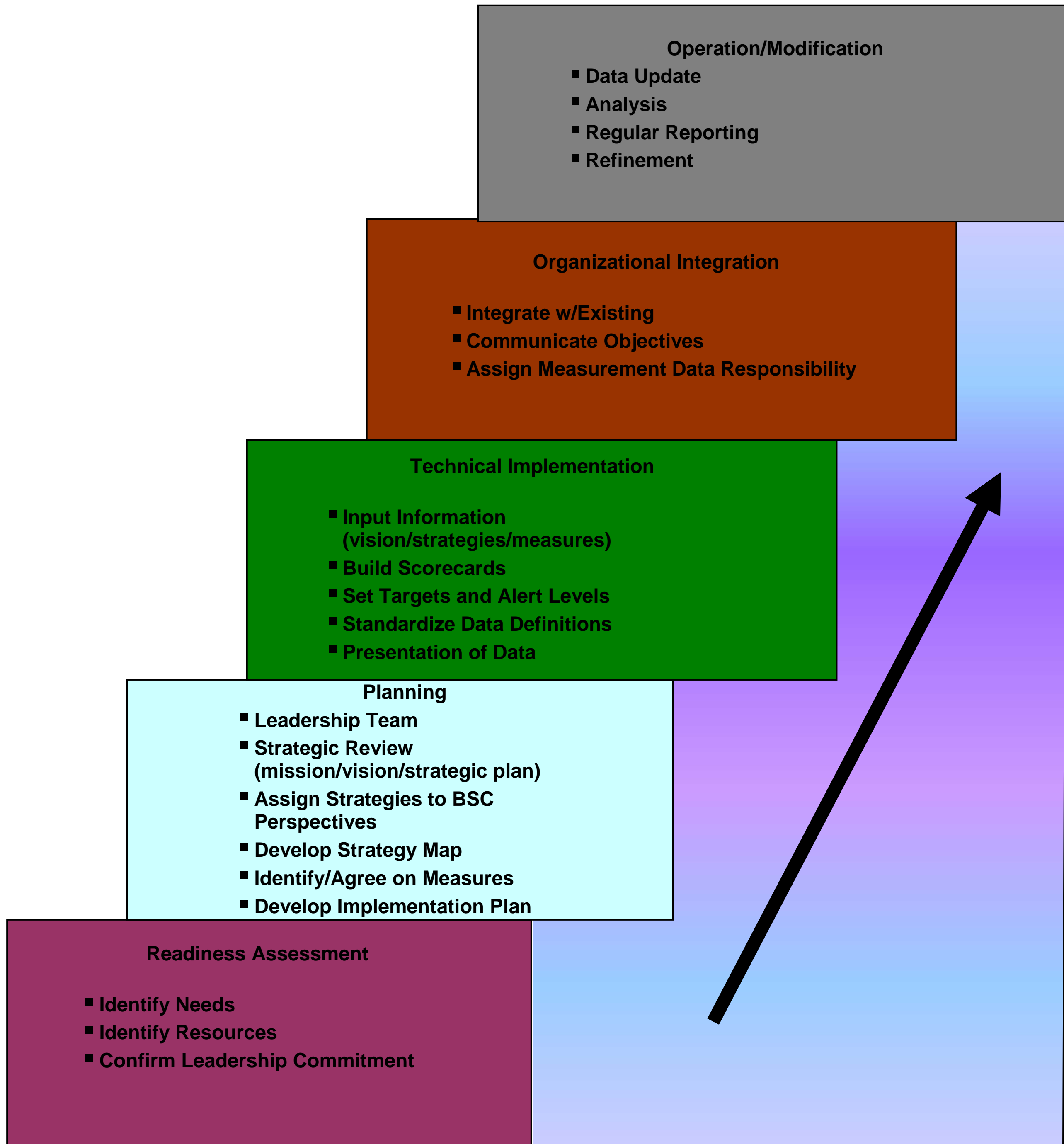
Organizational integration: integrate Balanced Scorecard with management and reporting processes and communicate to all members (staff and stakeholders), definition of persons responsible for measure data and empowerment, explanation of Balanced Scorecard objectives,

[6] "Using the Balanced Scorecard as a Strategic Management System" by Robert S. Kaplan and David P. Norton; Harvard Business Review; 2000.

re-engineering management and strategy process, re-engineering reporting process, regular reviews tied to compensation.

Operation/Modification: data update, analysis, and reporting regularly within routine processes; refinement, update measure values/analyze results/report results/refine model or process.

Figure 4



Readiness Assessment

One of the first areas an organization should consider is determining the value and the need for implementing a Balanced Scorecard process. An examination of current performance measures may help identify problem areas. Use this simple tool to assess your existing measures.[7]

Consider your measures as a group and rate them as follows:

1) No value on this goal
2) Some help on this goal
3) Quite helpful on this goal
4) Extremely valuable on this goal

How well do your performance measures:

____ Translate your business strategy into concrete actions?
____ Align departments with common goals?
____ Fully reflect what your stakeholders care about?
____ Provide the leverage to create change?
____ Balance leading and lagging indicators?
____ Balance strategic and operational indicators?
____ Enhance strategic and operational indicators?
____ Enhance your ability to compete in the future?
____ Drive improvements in how work is performed?
____ Include internal and external benchmarks to judge performance?
____ Total Score

A score of less than 18 suggests your measures are falling down on the job; if your total is 18-27, there's solid value in your measures but also room for improvement; scores over 27 indicate your measures are among the best.

**see page 43 for a reproducible version of this tool*

Other factors to consider are what resources are available in terms of existing IT infrastructure, staff time and expertise, and money to afford technical assistance if necessary. What type of IT infrastructure exists? Do staff know how to use basic software? What data is currently collected and how? Are there resources to bring in consultants to help facilitate the

[7] Measuring Performance: Using the new metrics to deploy strategy and improve performance; Dr. Bob Frost, Measurement International; 2000.

process? The following checklist might help assess the question of resources. Paul Niven includes another good assessment tool in his latest book "Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies (p.56).[8]

Yes	No	Resource Availability
		Does your facility have a computer network?
		Does the senior leadership have computers? (CEO/CFO/DON)
		Does the senior leadership have access to the Internet?
		Does the senior leadership know how to use a word processing program? (e.g. Word, Word Perfect)
		Does the senior leadership know how to use a spreadsheet program? (e.g. Excel)
		Does the senior leadership know how to use presentation software? (e.g. Powerpoint)
		Do department managers have computers?
		Do department managers have access to the Internet?
		Do department managers know how to use a word processing program? (e.g. Word, Word Perfect)
		Do department managers know how to use a spreadsheet program? (e.g. Excel)
		Do department managers know how to use presentation software? (e.g. Powerpoint)
		Can your facility afford to hire a consultant?
		Can your facility afford the cost of benchmarking data?

**see page 44 for a reproducible version of this tool*

Finally, the most significant factor to consider is whether there is a strong commitment from leadership including the administrator/CEO, administrative team, department managers, and the board of directors. Implementation of any type of performance improvement or performance management system will mean change. Without the absolute commitment of senior leadership, pushing these changes down throughout the organization ("cascading") will be difficult at best. Implementation of the Balanced Scorecard will create significant culture change that is ongoing. If the senior leadership team is resistant to change or is unwilling to share power

[8] Niven, P.R., Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies; John Wiley & Sons, Inc., New York, New York, 2003.

and control, the organization may want to consider a different approach to performance improvement.

The following is a simple way to assess whether your facility may be a good candidate for a Balanced Scorecard implementation (adapted from Niven).[9] This is an example of how you might use it in a facility.

Criteria	**Score (out of 10)**	**Weight**	**Total Points**	**Rationale**
Leadership Commitment	8	30 percent	2.40	
Defined Strategy	3	25 percent	.75	
Need	8	15 percent	1.20	
Resources	4	15 percent	.60	
Support of Participants	4	10 percent	.40	
Available Data	3	5 percent	.15	
Total	30	100 percent	5.50	

A score of 5.5 out of ten might suggest additional consideration be given those areas with a score under 5. Lack of resources or a well-defined strategy are things that should be addressed prior to implementation.

Planning

The first step is to identify the individual "champion" (typically the hospital administrator) who will lead this process and then build the Balanced Scorecard team. Niven

[9] Balanced Scorecard: Step-by-Step: Maximizing Performance and Maintaining Results; Paul R. Niven; 2002; John Wiley & Sons, Inc., New York

suggests that a 7 person team is ideal. This number may be challenging for small rural hospitals and 5 may be more attainable. In any group, it is essential to get a mix of complementary skills and personalities. Individuals selected should possess a commitment to the common purpose and approach and be held accountable. In addition to the hospital administrator, you'll need an individual to coordinate the Balanced Scorecard implementation, someone who is well organized and detail oriented, and individuals who will serve as active members of the team. The following chart describes roles and responsibilities.

Role	**Responsibilities**
Hospital Administrator	• Assumes primary ownership for the Balanced Scorecard project • Provides background information to the team on strategy and methodology • Maintains communication with administration and management • Commits resources (both human and financial) to the team • Provides support and enthusiasm for the Balanced Scorecard throughout the organization
Balanced Scorecard Coordinator	• Coordinates meetings; plans, tracks, and reports team results to all audiences • Provides thoughtful leadership on the Balanced Scorecard methodology to the team • Ensures that all relevant background material is available to the team • Provides feedback to the executive sponsor (co-leaders) and management • Facilitates the development of an effective team through coaching and support
Team Members	• Provide expert knowledge of business unit or functional operations • Inform and influence their respective peers and co-workers • Act as Balanced Scorecard ambassadors within their unit or department • Act in the best interests of the business as a whole

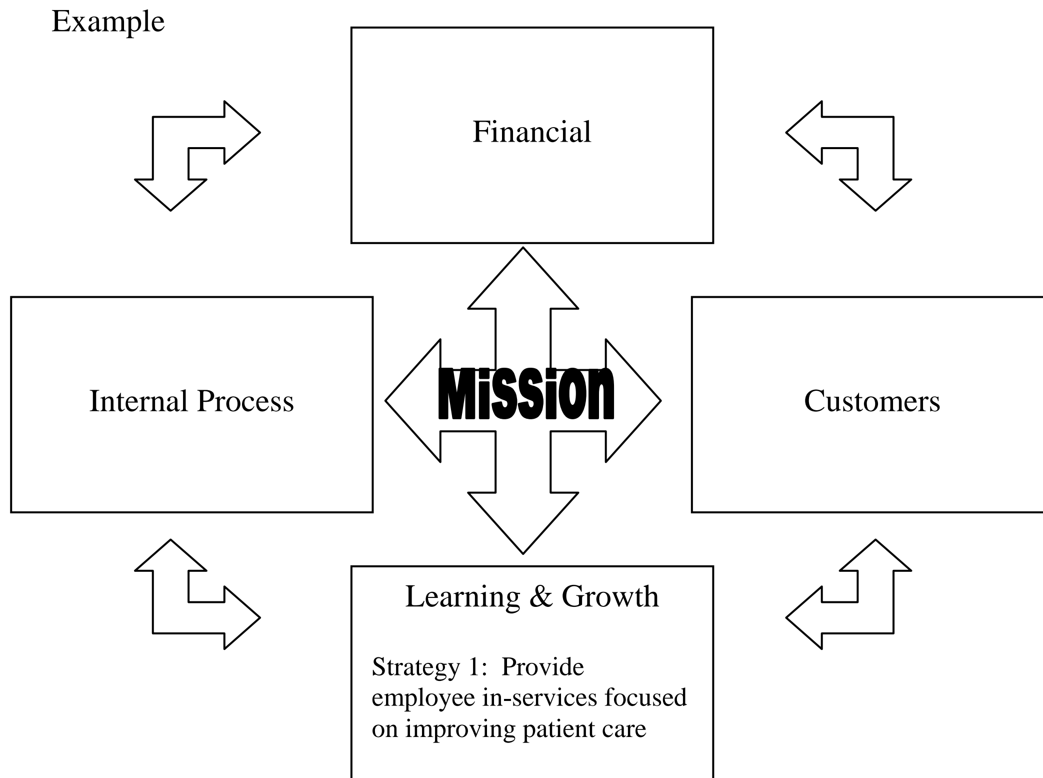
Once the team is established, a review of the organization's mission, vision, values, and strategies should be completed. It is essential that organizational strategies be current and relevant. If these elements don't exist or if they haven't been updated within the past year or so, then efforts should be made to update them. This can be accomplished by a skilled facilitator at a retreat. Usually the facility's leadership team, department managers, medical staff, and governing board members participate. It is essential that consensus on the contents of the mission, vision, values, and strategic plan is achieved.

> Kathy Garthe, CEO/Head Coach, Leelanau Memorial Health Center – Michigan, describes the need to have a vision for the hospital that drives the hospital's strategies and performance. She sees the BSC as an "ideal tool to manage these strategies". She has incorporated the Baldridge quality principles into their BSC and describes the BSC as an effective tool for TQM. Her small rural hospital currently has 38 strategic measures which they call "key critical success factors". The BSC is reviewed monthly. Financially, the hospital has gone from a -13% margin in 2000 to a +3% in 2003, although part of that could be attributed to CAH conversion.
>
> Kathy Garthe says in her hospital's experience: "Strategic objectives become the focus of individuals and departments throughout the hospital. Progress throughout the year is easily measured against objectives. The need for corrective actions can be identified and addressed in a timely manner. More team oriented objectives evolve in support of strategic objectives. BSC Makes complex issues and tasks easier to understand."

Once the strategic plan is well defined, strategies are reviewed to determine where they fit within the four Balanced Scorecard perspectives: Learning and Growth, Internal Processes, Customers, and Financial. Some organizations discover the need to add another perspective. There is no hard and fast rule that limits an organization to the four perspectives, as they serve as a template. For purposes of this publication, however, we chose to focus on these four perspectives.

For example, an overall goal "To maintain high level of commitment and involvement of hospital staff, volunteers and board members through education, recognition, and support" with a

strategy that states “Provide employee in-services focused on improving patient care”, would fit under the Learning and Growth perspective.



Once you have taken your strategies and grouped them under the appropriate Balanced Scorecard perspectives, then the next step would entail identifying measures of strategy achievement. Using the example above, the measure might be the number of employee participants or number of in-services provided or both.

Kaplan and Norton suggest that once an organization’s core strategies are established, that a “strategy map” is created .[10] A strategy map represents how the organization creates value and visually shows the detailed objectives in each of the four perspectives required for success.

[10] Kaplan, R.S. and Norton, D.P., Strategy Maps, Converting Intangible Assets into Tangible Outcomes; Harvard Business School Press, Boston, Massachusetts; 2004.

Both Kaplan and Norton and Paul Niven[11] have written extensively on the strategy mapping process and how to go about it.

A strategy map is based on the following principles:

- Strategy balances contradictory forces (e.g. investing in intangible assets for long-term revenue growth conflicts with cutting costs for short-term financial performance)
- Strategy is based on a differentiated customer value proposition (e.g. clear articulation of targeted customer segments (patients, medical staff) and what it costs to please them)
- Value is created through internal business processes (e.g. operations management, customer management, innovation, regulatory and social)
- Strategy consists of simultaneous complementary themes (e.g. each internal process improvement delivers benefits at different points in time)
- Strategic alignment determines the value of intangible assets (e.g. learning and growth consists of human capital, information capital, and organization capital)

Strategy mapping provides a graphical representation of an organizational model that shows the relationships (cause and effect) between various strategic objectives. It's a picture story of how successful implementation of performance initiatives result in achievement of strategies and how they are interrelated and dependent upon each other. Although Kaplan and Norton devote an entire book to the subject of strategy maps[12], Niven has a well-written process

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[11] Niven, P.R., Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies; John Wiley & Sons, Inc., New York, New York, 2003.

[12] Kaplan, R.S. and Norton, D.P., Strategy Maps, Converting Intangible Assets into Tangible Outcomes; Harvard Business School Press, Boston, Massachusetts; 2004.

on how to develop a strategy map[13]. He recommends the involvement of all members of the Balanced Scorecard team, including the CEO, in a full-day session led by an outside consultant or facilitator. All participants should have a copy of the mission, vision, values, and strategic plan. He suggests the use of a SWOT Analysis on the four perspectives of the Balanced Scorecard (Learning and Growth, Internal Processes, Customers, and Financial) as a mental warm-up to development of objectives for each of the four perspectives. The following table is a summary of the questions that might be explored in each of the four perspectives.

Perspective	**Questions to Ask**
Learning and Growth	Which organizational infrastructure elements are necessary if we are to achieve our process and customer objectives? Which skills and competencies do our employees require now? Which skills and competencies will be required in the years ahead? Do our employees have access to the information they need to help us achieve our customer outcomes? Is our organizational climate conducive to success? Do we have a strong culture and alignment of goals throughout?
Internal Process	To continue adding value for our customers and clients, at what processes must we excel? After analyzing current trends, which processes might we be expected to develop and excel at in the foreseeable future?
Customer Perspective	Who are our targeted customers? Howe do we "add value" for our customers? Which services or products do our customers require and expect from us?
Financial Perspective	Is our service delivered at a good price? How can we maintain current service levels while remaining within our budget? What opportunities do we have for enhancing revenue?

The questions outlined should generate hours of stimulating discussion. A good facilitator will help identify key words that can be used to create the essence of important objectives. There is no hard and fast rule for the number of objectives in a BSC. A good

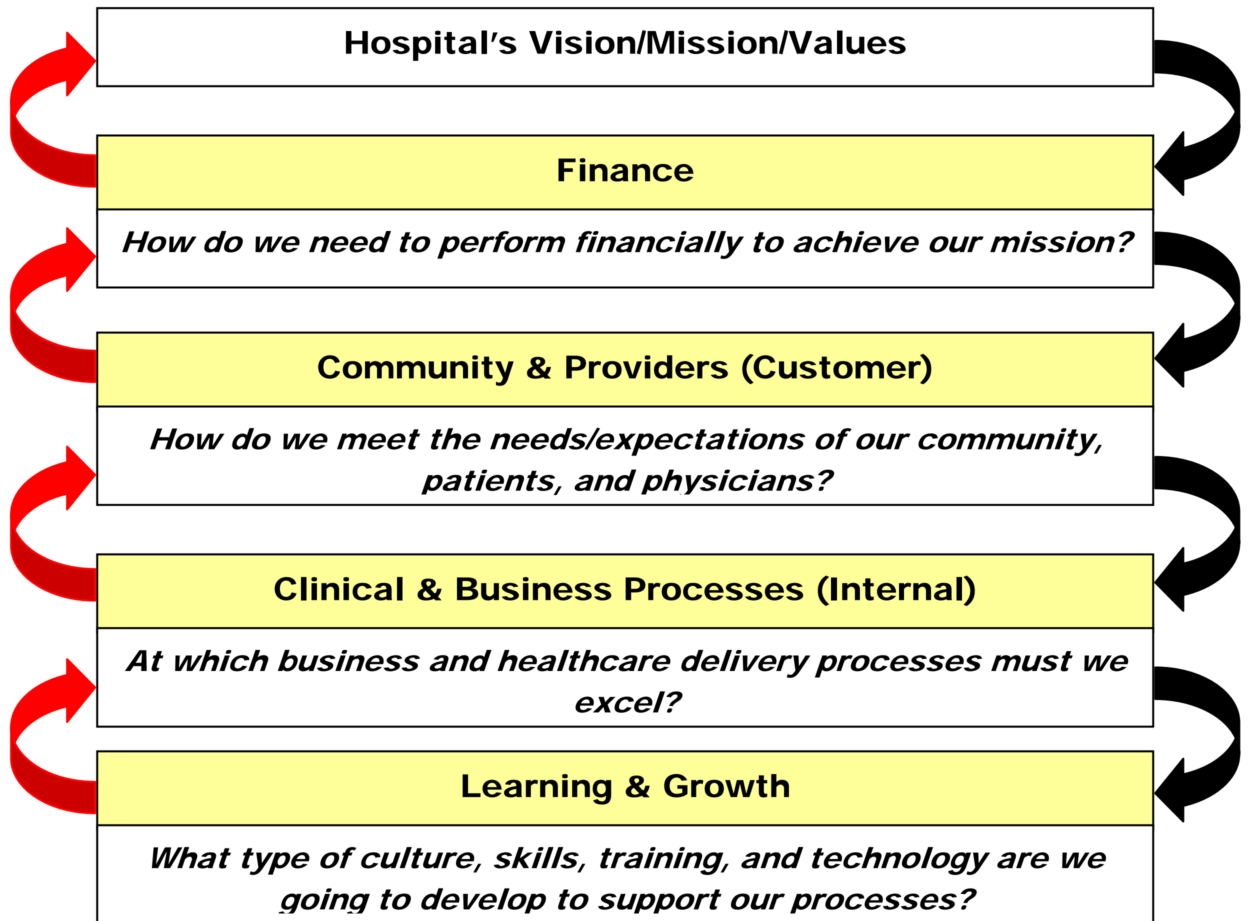
[13] Niven, P.R., Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies; John Wiley & Sons, Inc., New York, New York, 2003.

guideline, however, is "less is generally better". Niven suggests capping the number of objectives between 10 and 20. Well-written objective statements will provide precise clarification of the meaning, outline why the objective is important, discuss how the objective will be accomplished, and describe how the objective links in the chain of cause and effect evident in the strategy map. Once the objectives have been identified and objective statements developed, ask these questions:

- Is the cause-effect logic in the map complete? Are all the necessary elements to tell the story accounted for?
- Is the logic reflected in the map theoretically sound? Do all the elements fit together logically?
- Will the objectives outlined on the map lead to the effective execution of our strategy?
- Does the map represent balance in our efforts to achieve our mission?

Without the strategy map as a communication tool, it is difficult to express strategy changes as they occur. This model has already been implemented in several hospitals. The following is a graphic representation that describes the construction of a strategy map. The names of the perspectives are designed to represent the operations within a hospital.

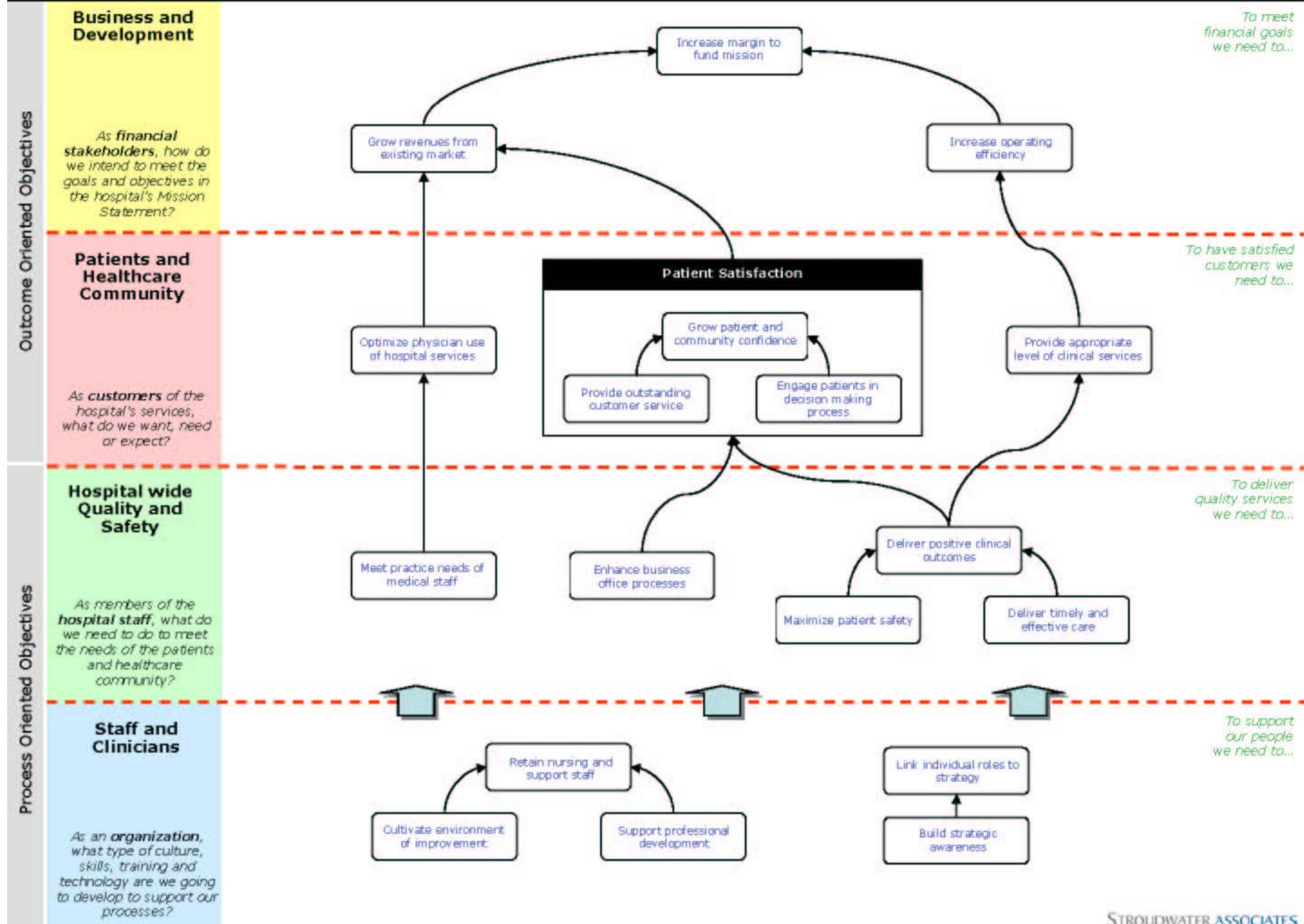
> Joe Hammond, North Sunflower Hospital-Mississippi remarked that "he finally understood the full impact of the BSC the day his hospital created their BSC Strategy Map". He realized the BSC was "far more than a measuring tool", but also provided a framework for managing the hospital's most important business. He also saw it as a means of communicating strategy to both his board and his entire staff. He notes the need for strong executive leadership and commitment and describes the BSC process as a distance race rather than a sprint.



Once consensus has been obtained on which perspectives to use and what to name them, the process of identifying strategies, objectives, and measures can begin. A search of the Internet using the search words "strategy map" produces several examples of strategy maps. There is no one "right" strategy map for all rural hospitals. Each facility must look at its mission, vision, values, and strategies and develop a strategy map based on those items. An example of a strategy map developed for a rural hospital as part of the Delta Rural Hospital Performance Improvement (RHPI) Project is on page 30.

Following the development of a strategy map, one of the more time consuming activities is the identification of specific measures that will be used to track accomplishment of strategic objectives. Measuring performance has been a hospital task since long before the development of the Balanced Scorecard. The trick is making sure the right things are being measured.

There are three types of performance measures: input measures, output measures, and outcome measures. **Input measures** include staff time or budgetary resources. **Output measures** include number of people served or units produced by a program or service. Input and output measures demonstrate effort expended and numbers served but tell little about whether these interventions are making a difference. **Outcome measures** track the benefit received by stakeholders as a result of an organization's efforts. Most would agree outcome measures provide the best information for decision-making. A Balanced Scorecard should include a mix of input, output, and outcome measures and a mix of lag and lead indicators. Lag indicators measure whether targets have been met, while lead indicators measure progress along the way. Employee satisfaction is an example of a lag indicator while absenteeism is an example of a lead indicator.



Prototype Balanced Scorecard Strategy Map
Outcome Oriented Objectives
Process Oriented Objectives
Business and Development
As financial stakeholders, how do we intend to meet the goals and objectives in the hospital's Mission Statement?
Patients and Healthcare Community
As customers of the hospital's services, what do we want, need or expect?
Hospital wide Quality and Safety
As members of the hospital staff, what do we need to do to meet the needs of the patients and healthcare community?
Staff and Clinicians
As an organization, what type of culture, skills, training and technology are we going to develop to support our processes?
Increase margin to fund mission
Grow revenues from existing market
Increase operating efficiency
Patient Satisfaction
Grow patient and community confidence
Provide outstanding customer service
Engage patients in decision making process
Optimize physician use of hospital services
Provide appropriate level of clinical services
Meet practice needs of medical staff
Enhance business office processes
Deliver positive clinical outcomes
Maximize patient safety
Deliver timely and effective care
Retain nursing and support staff
Cultivate environment of improvement
Support professional development
Link individual roles to strategy
Build strategic awareness
To meet financial goals we need to...
To have satisfied customers we need to...
To deliver quality services we need to...
To support our people we need to...
STROUDWATER ASSOCIATES

The essential objective in selecting specific measures for a scorecard is to identify the measure that best communicates the meaning of a strategy. There are several core outcome measures that Kaplan and Norton have identified and include:

Core Financial Measures

- Return-on-investment/economic value-added
- Profitability
- Revenue growth/mix
- Cost reduction productivity

Core Customer Measures

- Market share
- Customer acquisition
- Customer retention
- Customer profitability
- Customer satisfaction

Core Learning and Growth Measures

- Employee satisfaction
- Employee retention
- Employee productivity

Measures should be developed for each of the perspectives agreed upon. In the process of identifying measures, refer to the table on page 19 for questions to ask in the process of identifying measures. There will no doubt be more measures than resources to collect the data, so it is important to narrow these measures to the critical few that are:

- linked to your strategy,

- are easy to understand,
- can be linked together in a chain of cause and effect,
- can be updated frequently,
- are accessible,
- portray a true picture of the process or event you're attempting to capture,
- are resistant to date related measures,
- are quantitative, and
- functional.

Once measures have been identified, the team should spend time refining the measures, assigning ownership, and identifying data requirements. This would be a good time to gather employee feedback on the measures to make sure they are practical and represent cause-effect linkages. Once consensus on the measures has been obtained, the Balanced Scorecard team can establish targets for the measures.

There are any number of measures that a rural hospital might select. Using the strategy map on page 30 and the four perspectives Learning & Growth (Learning & Knowledge), Clinical & Business Processes (Internal Processes), Community and Providers (Customer), and Finance (Financial), these measures might include:

<u>Learning & Growth</u>

- Nursing Staff Turnover
- Staff Turnover
- Staff Loyalty Index
- Medical Error Policy
- Staff Training Dollars

- Access to Training
- Mission Index
- Staff Engagement Index

Clinical & Business Processes (Internal Processes)

- Contractual Allowances
- Bad Debt Expense
- Net Days in A/R
- Unbilled A/R
- MD Engagement Index
- Average Age of Plant
- Falls: Acute Care
- Falls: Swing Beds
- Medical Error Rate
- ER Wait Time
- Responsiveness
- ACE Inhibitor Delivery
- Beta Blocker Delivery
- Antibiotic Delivery
- Aspirin Delivery

Community & Providers (Customer)

- MD Loyalty Index
- Time to Treating Provider
- Courtesy & Respect

- Patient Engagement
- Inpatient Satisfaction
- Emergency Department Satisfaction
- Patient Access Index

Finance (Financial)

- Operating Profit Margin
- Days Cash on Hand
- Commercial Mix
- Net Revenue Increase
- Cost Per Patient Day
- Salary & Benefit Expense
- Nursing Staff Productivity

> Russ Sword, CEO Ashley County Hospital, Arkansas, speaks of the need resources to sustain BSC operations after the initial flurry of development activity. There are immediate rewards and benefits, but it takes persistence and continuing education to drive the BSC approach into the hospital culture. At Ashley County Hospital a BSC team leads the implementation of the Performance Improvement and BSC initiatives. Currently the hospital is measuring forty different performance indicators and is benchmarking its performance with 15 other hospitals.

The last activity in the Planning Phase is the development of a plan for implementation of the Balanced Scorecard system. This plan should include a budget, expected milestones, risk analysis, a description of your IT (information technology) system, terminology and definitions, Balanced Scorecard elements and structure, and clear identification of who will be responsible for what activities. This plan should include how the BSC information will be communicated throughout the organization and

how feedback from employees will be obtained and integrated. This plan will form the basis for the technical implementation and technical and organizational integration efforts that follow.

Technical Implementation

A clearly articulated plan should identify the organization's mission, visions, values, strategies, and measures. This plan should also identify the information technology infrastructure within the facility as well as it's strengths and limitations. The risk analysis should cost out any modifications needed in your IT infrastructure to enable those responsible for data gathering and reporting to carry out their functions.

Some hospital may have the resources needed to purchase existing Balanced Scorecard software. There are a number of vendors that sell complete software systems that provide the structure needed to complete the entire Balanced Scorecard process. If a packaged software system is desired, a request for proposals should be developed, including an on-site product demonstration, detailed information on training and support, and assurance the software is compatible with the existing IT system. The authors of the Gartner report "Weighing the Options - Balanced Scorecard Software", Bernard Marr and Andy Neely, have written a new book entitled Automating Your Scorecard: The Balanced Scorecard Software Report.[14] This report is produced every year and last updated at the end of 2003 with the aim to help organizations through the software selection maze. The book has been designed to guide organizations through the process of selecting the right software solution by offering a decision framework, as well as detailed evaluations of all of the major BSC software products available

[14] http://www.som.cranfield.ac.uk/som/cbp/BScorecard.html

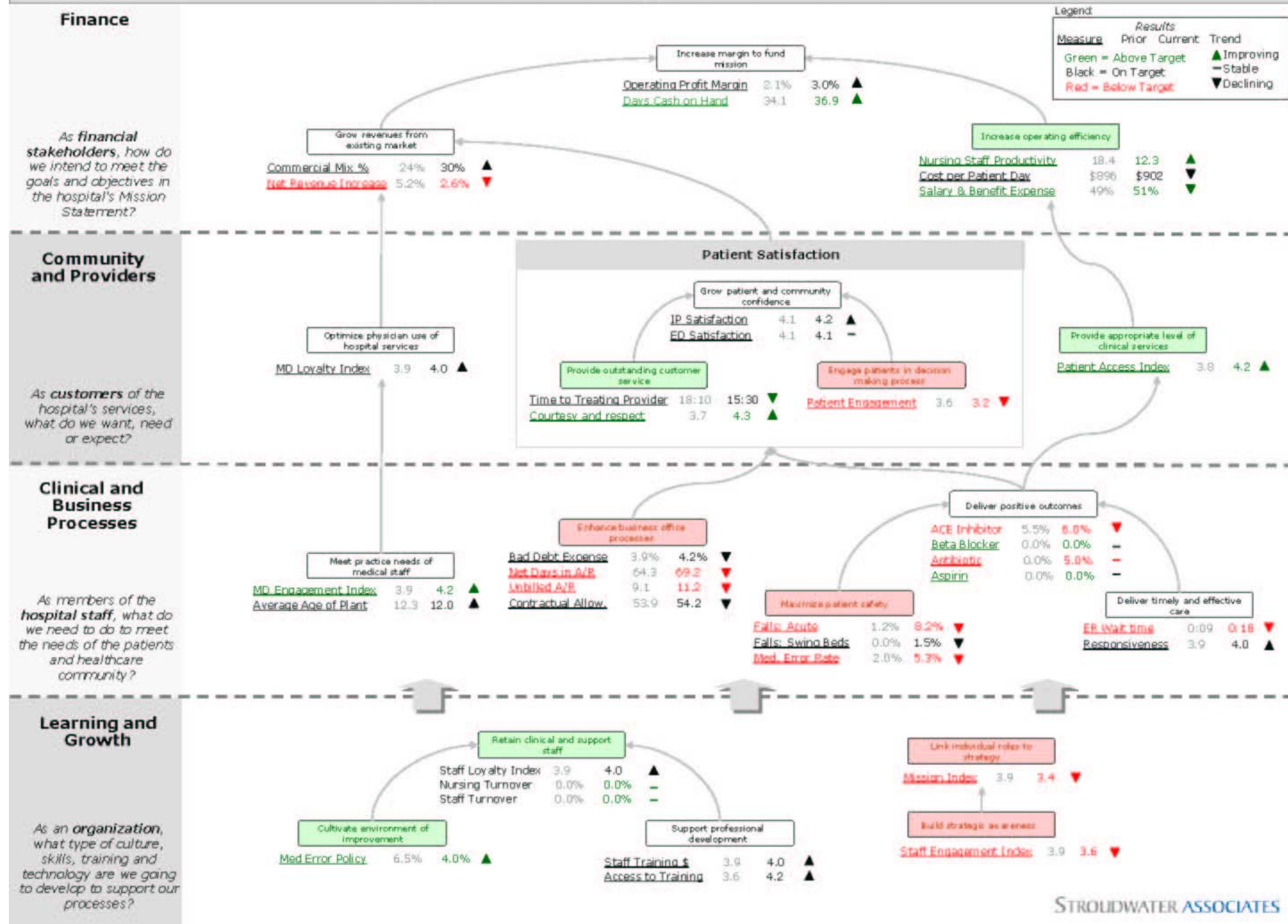
today. Additionally, Microsoft's OS 2003 is reported to include a specific BSC software program, scheduled for release the end of May 2004 at a cost of less than $1,000.

If the hospital doesn't have the resources to purchase off-the-shelf software, data can be collected, entered, analyzed, and reported utilizing standard office software such as Microsoft Office. Training in the use of all of Microsoft's applications (Word, Excel, Access, Powerpoint) is typically available either through the Internet, through local vendors certified to teach Microsoft software applications, or through community colleges.

Scorecards can be built directly from the strategy map. A scorecard can be a table or graphic that shows previous performance, the target, and current performance. An example of a scorecard is provided on page 37.[15]

Well designed scorecards give attention to target and alarm (or alert) levels, data consolidation rules, defining graphs and reports, importing historical measurement data, and creating reports. Reports can be generated for management purposes, the medical staff, the governing board, or all three. A management report might include all data in graph form for all four perspectives. A medical staff report might only include those data related to clinical processes (patient satisfaction, cost per discharge, etc.). A report to the governing board might not include all the details that a management report would have. The Balanced Scorecard team can help design and refine the scorecards and reports that will flow out of the data collection process. Appendix 2 contains an example of the process to implement a simplified Balanced Scorecard.

[15] Stroudwater & Associates



Sample Small Rural Hospital Balanced Scorecard
Finance
As financial stakeholders, how do we intend to meet the goals and objectives in the hospital's Mission Statement?
Community and Providers
As customers of the hospital's services, what do we want, need or expect?
Clinical and Business Processes
As members of the hospital staff, what do we need to do to meet the needs of the patients and healthcare community?
Learning and Growth
As an organization, what type of culture, skills, training and technology are we going to develop to support our processes?
Legend
Results
Measure Prior Current Trend
Green = Above Target
Black = On Target
Red = Below Target
▲Improving
−Stable
▼Declining
Increase margin to fund mission
Operating Profit Margin 2.1% 3.0% ▲
Days Cash on Hand 34.1 36.9 ▲
Grow revenues from existing market
Commercial Mix % 24% 30% ▲
Net Revenue Increase 5.2% 2.6% ▼
Increase operating efficiency
Nursing Staff Productivity 18.4 12.3 ▲
Cost per Patient Day $896 $902 ▼
Salary & Benefit Expense 49% 51% ▼
Patient Satisfaction
Grow patient and community confidence
IP Satisfaction 4.1 4.2 ▲
ED Satisfaction 4.1 4.1 −
Provide outstanding customer service
Time to Treating Provider 18:10 15:30 ▼
Courtesy and respect 3.7 4.3 ▲
Engage patients in decision making process
Patient Engagement 3.6 3.2 ▼
Optimize physician use of hospital services
MD Loyalty Index 3.9 4.0 ▲
Provide appropriate level of clinical services
Patient Access Index 3.8 4.2 ▲
Meet practice needs of medical staff
MD Engagement Index 3.9 4.2 ▲
Average Age of Plant 12.3 12.0 ▲
Enhance business office processes
Bad Debt Expense 3.9% 4.2% ▼
Net Days in A/R 64.3 69.2 ▼
Unbilled A/R 9.1 11.2 ▼
Contractual Allow. 53.9 54.2 ▼
Deliver positive outcomes
ACE Inhibitor 5.5% 8.0% ▼
Beta Blocker 0.0% 0.0% −
Antibiotic 0.0% 5.0% −
Aspirin 0.0% 0.0% −
Maximize patient safety
Falls: Acute 1.2% 8.2% ▼
Falls: Swing Beds 0.0% 1.5% ▼
Med. Error Rate 2.0% 5.3% ▼
Deliver timely and effective care
ER Wait time 0:09 0:18 ▼
Responsiveness 3.9 4.0 ▲
Retain clinical and support staff
Staff Loyalty Index 3.9 4.0 ▲
Nursing Turnover 0.0% 0.0% −
Staff Turnover 0.0% 0.0% −
Cultivate environment of improvement
Med Error Policy 6.5% 4.0% ▲
Support professional development
Staff Training $ 3.9 4.0 ▲
Access to Training 3.6 4.2 ▲
Link individual roles to strategy
Mission Index 3.9 3.4 ▼
Build strategic awareness
Staff Engagement Index 3.9 3.6 ▼
STROUDWATER ASSOCIATES

Organizational Integration

The most important aspect of the organizational integration phase is communication. All Balanced Scorecard team members as well as all employees, medical staff, and governing board members must have a clear understanding of the structure of the facility's Balanced Scorecard, who is responsible for gathering the data, inputting the data, analyzing the data, generating reports, and communicating the results to the various stakeholders. One of the benefits of this process is the identification of reports and measures that may no longer be needed. Another aspect of this phase is what Niven refers to as "cascading" or the process of developing aligned scorecards throughout an organization.[16] Each level of the organization will develop scorecards based on the objectives and measures it can influence. Cascading allows every employee to demonstrate a contribution to overall organizational objectives.

> Teresa Fisher, Director of Operational Development, speaks of the benefits that the BSC brought to the Pine Medical Center Staff, Sandstone, MN. "I love the BSC. With the BSC you always have your headlights on. The employees become aware of where the hospital is going and can participate fully. The department leaders can also align their department activities to the hospital's strategies. They can better anticipate resource needs and plan for the future more effectively. People get used to checking the satisfaction scores to see how they're doing; they come to own the results. In our hospital there has been a strong correlation between staff awareness of hospital direction and staff satisfaction."

> Peter Person, CEO of the SMDC Health System (4 hospitals and 25 community clinics in MN, WI, and MI) says: "BSC aligned the entire organization through a common set of well understood objectives and created a platform for developing a single organizational culture. It increased executive, management and physician/staff accountability with clearly defined targets and was an effective communications tool for everyone. It led to a $20M financial turnaround and return to profitability."

[16] Niven, P.R., Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies; John Wiley & Sons, Inc., New York, New York, 2003.

Operation/Modification

The final phase is ongoing and includes data updates, analysis, and reporting regularly within routine processes; refinement of measure values; analysis of results; and refinement of the model. Once you have several quarters of data collected, measures can be analyzed to determine if they are truly linked to the identified strategy. This phase requires an objective review of your established processes to be certain they are providing accurate information upon which to base decisions. This refinement process should continue throughout the life of the organization as change is inevitable.

Conclusion

The implementation of a Balanced Scorecard process in small rural hospitals is different from that of a Fortune 500 company. These differences include:

- Overall framework aligned around strategy to achieve a mission and vision as opposed to meeting the requirements of shareholders;
- Customer complexity – role of patients, physicians, and payers must be reflected in process and measures;
- Scope – process must fit resource availability of providers; affordability and ease of implementation are critical.

This publication is an attempt to lay the foundation for understanding the complexities and benefits of the Balanced Scorecard performance improvement initiative through the exploration of guiding principles and a description of various phases of Balanced Scorecard implementation. These phases include:

- ❖Readiness assessment

- Planning
- Technical implementation
- Organizational integration
- Operation/modification

The appendices contain various examples of assessment tools, a simplified example of the BSC process, terminology definitions, and additional resources (books, articles, and Websites).

> Falls Memorial Hospital, International Falls, MN was down to 5 days cash on hand when Mary Klimp became CEO in late 1998. On the Canadian border in northern Minnesota, the hospital is 100 miles away from any secondary center and 165 miles from a tertiary care center in Duluth. ADC was 3.5, Margin - 3 %. They did strategic planning in 1999 and began the BSC in 2000. Without outside consulting assistance, they put the BSC on an Excel spread sheet and used the scorecard with their board, administration, medical staff, department managers and with all staff. It was part of the orientation of every new employee and was posted throughout the hospital. The implementation process took 9 months but she estimates that ongoing implementation takes no more than 7 hours a month. Currently Falls Memorial is measuring 16 different performance indicators on its BSC They attribute a remarkable turnaround in hospital performance to the BSC. As of late 2003, the hospital had nearly 100 days cash on hand, a profit margin of 15 % and had undertaken extensive capital expansion. It's inpatient census had also more than tripled to 11. Leadership attributes the improvement primarily to the BSC.
>
> Mary Klimp says: "Don't start from scratch use existing data if available. Pick a few vital indicators -- fewer is better than too many. Communicate and educate at all levels-frequently. Continue to reinforce the balanced perspective. Don't wait for the perfect measures-refine as you go along. It takes time to bake the scorecard into the organization's daily work".
>
> Mary says that "My proudest BSC moment was when I met a housekeeper in the hall who remarked that the BSC indicated that the hospital was doing great and that she was proud to work here." Mary believes that this widespread staff understanding of strategy has been important marketing for the hospital.

Appendix 1: TOOLS/PERFORMANCE AIDS

Challenges we see and how the Balanced Scorecard seeks to resolve them

Nurses	**Managers**	**Administrators**	**Board Members**	**Strategic Plans**	**PI Programs**

Observations

Frequently nurses...

- Feel overworked
- Are swamped with paperwork
- Tend to gravitate toward their comfort zone: patient care
- Want to be part of a team
- Want the hospital to succeed

Frequently managers...

- Are "working" managers
- Have been promoted because of clinical talent
- Are seen as hospital leaders
- Have a basic understanding of hospital *Business Literacy*

Frequently administrators...

- Have the right ideas
- Are well respected by staff
- Understand the "Big Picture"
- Are highly committed to the hospital's success
- Try to delegate responsibilities when it is appropriate

Frequently board members...

- Have had successful careers, often in non-healthcare industries
- Feel a strong sense of personal responsibility for the hospital's success
- Provide valuable community insight

Frequently strategic plans...

- Have the right ideas
- Are updated annually
- Provide a useful context for reviewing progress
- Are developed collaboratively by board members and hospital management

Frequently PI Programs...

- Have evolved from Quality Assurance programs
- Are driven by external requirements or standards
- Are dominated by clinical indicators and activities
- Are managed by staff who have multiple responsibilities

Challenges

Frequently nurses...

- Do not understand their integral role in hospital strategy
- Lack hospital *Business Literacy*
- Participate in Quality Improvement activities to be "good citizens"
- Don't see how they impact financial performance

Frequently managers...

- Have not received formal management training
- Isolate on their departments
- Focus on expense targets that have been set as part of a hospital wide budget process
- Lack incentives for "growing" the business

Frequently administrators...

- Feel compelled to "get involved" in everything
- Have a hard time communicating the "Big Picture" to staff
- Depend on a surprisingly small number of key staff to make sure things get done
- Have too much data and not enough information

Frequently board members...

- Rely strongly on hospital senior executives for sharing performance data
- Focus primarily on financial reports
- Hover somewhere between over-involved and under-involved, depending on the topic
- Overemphasize the need to reduce expenses

Frequently strategic plans...

- Are not good communication tools
- Lack measurable goals and targets
- Rarely get shared or reviewed with hospital staff or clinicians
- Overemphasize tangible assets rather than people or systems

Frequently PI Programs...

- Are not linked with the hospital's strategy
- Do not include financial or operational measures
- Are not a priority until accreditor/regulator visits are imminent
- Are understood only by a small number of staff or clinicians

Solutions

BSC helps nurses to...

- Reduce paperwork
- Provide meaningful data
- Focus on high priority activities
- Build *Business Literacy*
- Offer strategic input
- Better understand hospital strategy and how they contribute to performance improvement

BSC helps managers to...

- Buy time for analysis
- Redefine the concept of Performance for their departments
- Understand how their department contributes to hospital strategy
- Run their department like a business rather than a cost center

BSC helps administrators to...

- Communicate strategy
- Build accountability
- Eliminate the need to manage from crisis to crisis
- Receive reliable, timely and strategically relevant data
- Reward and empower key staff
- Set an agenda for change
- Benchmark performance

BSC helps board members to...

- Set strategy according to a balanced view of performance
- Focus on governance and not management
- Ask the appropriate fiduciary questions
- Evaluate the hospital's progress toward executing strategy
- Benchmark performance

BSC helps strategic plans to...

- Integrate financial, operational and clinical performance into a common framework
- Divide performance into meaningful categories
- Establish cause and effect linkages among objectives
- Link performance indicators to strategic goals and objectives

BSC helps PI Programs to...

- Become the strategic engine
- Link financial, operational and clinical goals and objectives
- Test the hospital's ability to execute strategy
- Engage key staff throughout the organization
- Establish the business case for Quality

Nurses	Managers	Administrators	Board Members	Strategic Plans	PI Programs
Streamline data collection	**Build departmental accountability**	**Communicate Strategy**	**Evaluate Strategic Progress**	**Expand the concept of Performance**	**Execute the Strategy**

The Balanced Scorecard approach developed by Stroudwater Associates has been designed to respond to the unique needs and challenges facing nurses, managers, administrators and board members who are committed to small rural hospital performance and strategic excellence. By establishing a framework for defining, measuring and executing strategy, hospitals that implement a Balanced Scorecard establish greater clarity around mission driven priorities and opportunities for financial and clinical performance improvement. The goal is straightforward: Invest the time to understand the hospital's fundamental goals, set a plan of action, and then measure your progress toward realizing those goals.

ASSESSING EXISTING MEASURES

Consider your measures as a group and rate them as follows:

1 - No value on this goal
2 - Some help on this goal
3 - Quite helpful on this goal
4 - Extremely valuable on this goal

How well do your performance measures:

____ Translate your business strategy into concrete actions?
____ Align departments with common goals?
____ Fully reflect what your stakeholders care about?
____ Provide the leverage to create change?
____ Balance leading and lagging indicators?
____ Balance strategic and operational indicators?
____ Enhance strategic and operational indicators?
____ Enhance your ability to compete in the future?
____ Drive improvements in how work is performed?
____ Include internal and external benchmarks to judge performance?
____ Total Score

A score of less than 18 suggests your measures are falling down on the job; if your total is 18-27, there's solid value in your measures but also room for improvement; scores over 27 indicate your measures are among the best.

RESOURCE ASSESSMENT

Yes	No	Resource Availability
		Does your facility have a computer network?
		Does the senior leadership have computers? (CEO/CFO/DON)
		Does the senior leadership have access to the Internet?
		Does the senior leadership know how to use a word processing program? (e.g. Word, Word Perfect)
		Does the senior leadership know how to use a spreadsheet program? (e.g. Excel)
		Does the senior leadership know how to use presentation software? (e.g. Powerpoint)
		Do department managers have computers?
		Do department managers have access to the Internet?
		Do department managers know how to use a word processing program? (e.g. Word, Word Perfect)
		Do department managers know how to use a spreadsheet program? (e.g. Excel)
		Do department managers know how to use presentation software? (e.g. Powerpoint)
		Can your facility afford to hire a consultant?
		Can your facility afford the cost of benchmarking data?

Appendix 2: BALANCED SCORECARD EXAMPLE

The following is an example of how one might develop a Balanced Scorecard. The information included is fictional and is provided to simply demonstrate the process.

Anytown Hospital has just finished a two-day retreat where they revised and updated their mission and vision statements and drafted a strategic plan. The hospital's vision statement is:

The vision of Anytown Hospital is to be the community's provider of choice.

The hospital's mission statement is:

Anytown Hospital is committed to providing the highest quality of health care through service excellence and compassionate care

During their retreat, the hospital board and leadership identified the following strategies to pursue the upcoming year.

- Operate in the black with 5 percent margin by increasing revenues
- Motivate, recognize and retain staff
- Provide high quality services
- Increase utilization of services

The Anytown Hospital administrator enlisted the help of the department managers to implement a performance improvement process and Balanced Scorecard. First, they took these strategies and placed them into their appropriate perspectives as follows:

Learning and Growth Perspective (Staff & Clinicians)

- Motivate, recognize and retain staff

Internal Process Perspective (Quality & Safety)

- Provide high quality services

Customer Perspective (Patients & Community)

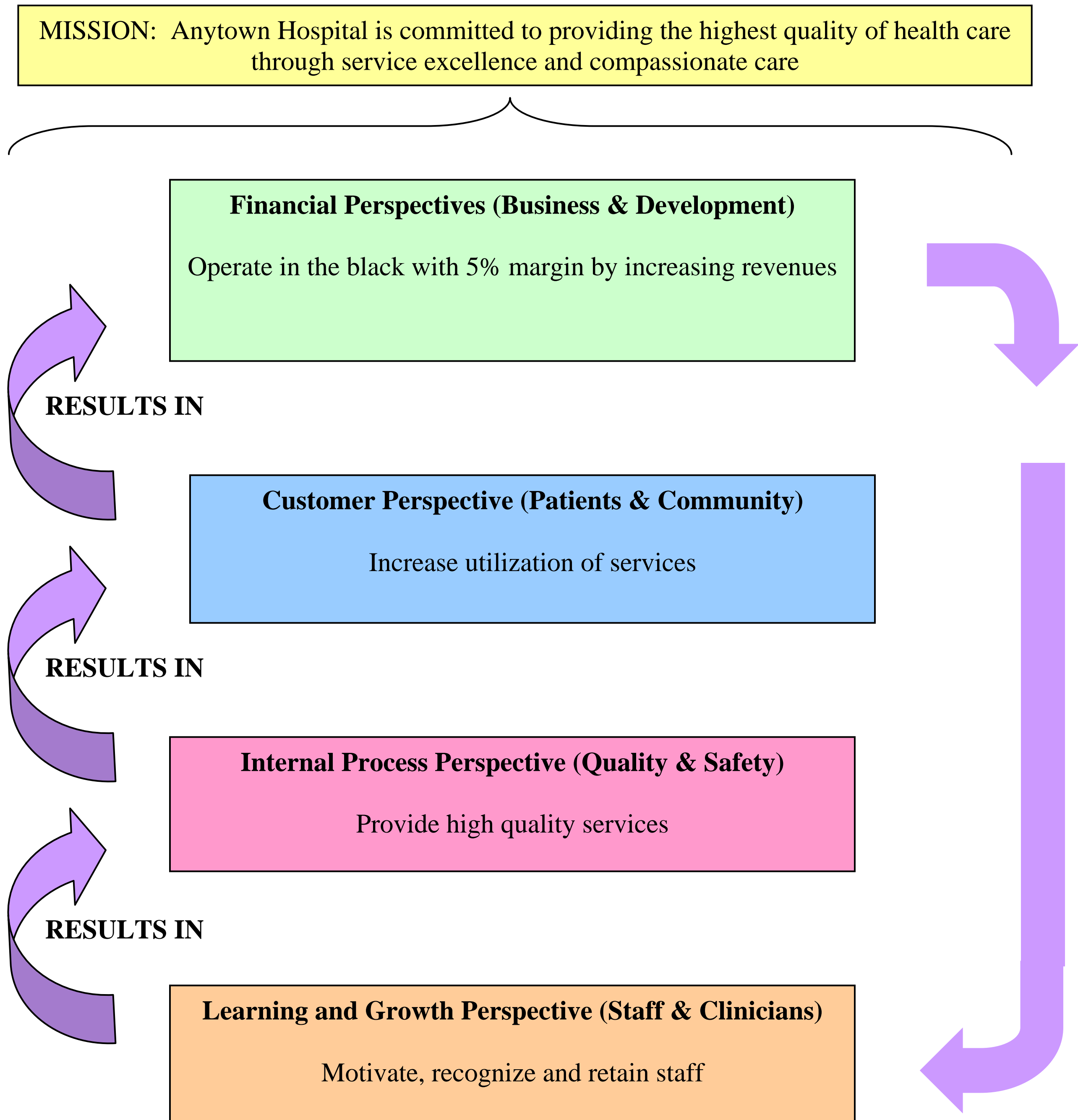
- Increase utilization of services

Financial Perspectives (Business & Development)

- Operate in the black with 5% margin by increasing revenues

NOTE: Once strategies are categorized according to the four perspectives, if there are imbalances, determine if they are significant and either add or remove strategies accordingly.

The next step is to determine the causal linkages between the strategies and develop a strategy map to visually portray how your strategies support your mission and vision. One of the primary reasons for developing a strategy map is that it should clearly communicate the connection between strategies and mission and is an excellent communication tool. The following is Anytown Hospital's strategy map.



Once you have your strategy map, you can start identifying what actions you will take to achieve strategies and how you will measure the progress in accomplishing each strategy. The following are a few examples of actions you might implement under each strategy and two measures that could be used to track accomplishment of each strategy. For purposes of this example, both a lag (historical performance) and a lead (predictor of future performance) indicator are used.

Learning and Growth Perspective (Staff & Clinicians):
Motivate, recognize and retain staff

ACTIONS:
Develop performance based compensation
Develop peer recognition program
Review/update salary/benefits to ensure competitiveness

MEASURES:
Employee satisfaction (lag indicator)
Turnover rate (lead indicator)

Internal Process Perspective (Quality & Safety):
Provide high quality services

ACTIONS:
Review ER patient flow process and streamline
Review ER staffing to ensure adequacy
Implement automated pharmaceutical dispensing

MEASURES:
percent ER patient triaged within 15 minutes of arrival (lead indicator)
Medication errors per dose (lag indicator)

Customer Perspective (Patients & Community):
Increase utilization of services

ACTIONS:
Implement customer service
Implement marketing plan

MEASURES:
Patient satisfaction in 95 percent-tile (lag indicator)
Average daily census (lead indicator)

Financial Perspectives (Business & Development):
Operate in the black with 5 percent margin by increasing revenues

ACTIONS:
Review billing and collections processes for accuracy and timeliness
Develop incentive program for AR staff

MEASURES:
Net revenue increase over prior year (lag indicator)
Decrease net days in accounts receivable (lead indicator)

Once the measures are identified, you'll need to determine whether the data is currently available or will need to be collected. For example, you may already have data on employee terminations that could be used to calculate turnover rate on a monthly basis by department. You may have to purchase or design employee or patient satisfaction surveys to solicit their input. Employee surveys can be completed quarterly or annually and patient satisfaction surveys could be ongoing.

After data sources have been identified, the team (administrator/department managers) should assign responsibility for the collection of this data. Individuals within the business office would probably collect the net revenue and AR data; someone who manages human resources or salary/payroll functions might be responsible for collecting data on turnover rates or employee satisfaction; the individual responsible for quality assurance or improvement might be responsible for collecting data on ER triage time or medication errors; etc. (see example to right)

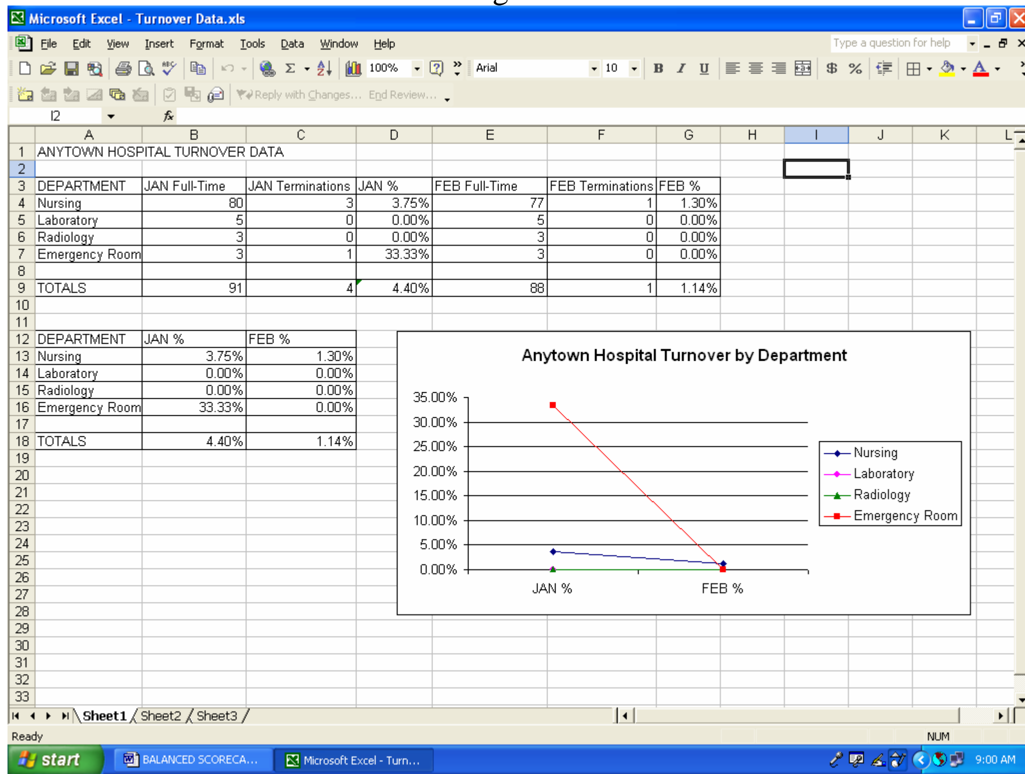
EXAMPLE

The human resource manager could set up a simple excel spreadsheet that contains total employees by department by month and terminations (both voluntary and involuntary) within each department. A ratio of # of terminations divided by total employees per department could be calculated easily and tracked each month. That data could be aggregated for the entire facility as well.

If, for example, you have a large number of voluntary terminations (people are quitting), you could determine in which department these tend to occur and implement exit interviews to determine cause. If the terminations are involuntary (people are fired), you might want to review the reasons for termination and/or the hiring practices to make sure the best candidates are being hired.

Assignments should be made to an individual to collect data, and the team should establish timelines for collection, deadlines for reporting, targets (what you hope to achieve) and report formats. Using the example above, at the end of each month, the HR manager gets the employee data from whoever processes payroll and enters it into the spreadsheet. He/she then generates a chart showing the trends. Refer to Figure 1. The deadline for completion of this task is established at the 5th of each month, the target is established at "0 percent" or no turnover, and the HR manager is responsible for submitting the data to the team in the agreed upon format.

Figure 1



ANYTOWN HOSPITAL TURNOVER DATA

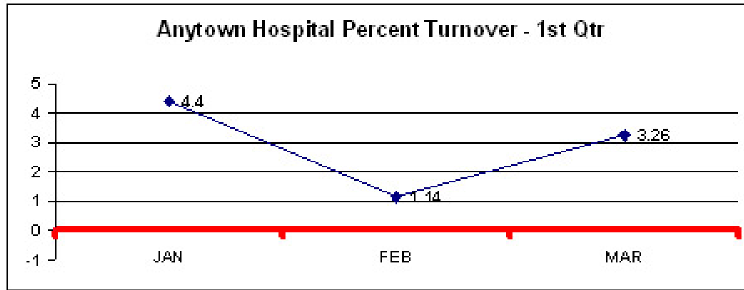
DEPARTMENT	JAN Full-Time	JAN Terminations	JAN %	FEB Full-Time	FEB Terminations	FEB %
Nursing	80	3	3.75%	77	1	1.30%
Laboratory	5	0	0.00%	5	0	0.00%
Radiology	3	0	0.00%	3	0	0.00%
Emergency Room	3	1	33.33%	3	0	0.00%
TOTALS	91	4	4.40%	88	1	1.14%

DEPARTMENT	JAN %	FEB %
Nursing	3.75%	1.30%
Laboratory	0.00%	0.00%
Radiology	0.00%	0.00%
Emergency Room	33.33%	0.00%
TOTALS	4.40%	1.14%

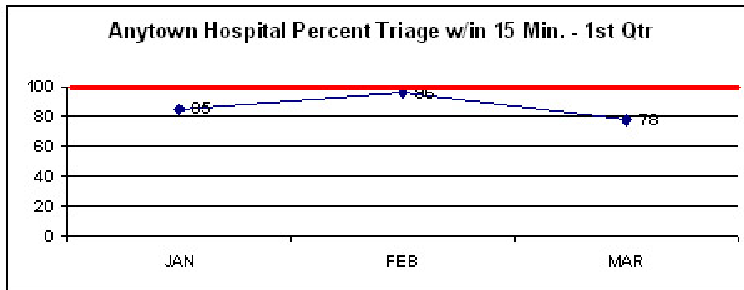
Each responsible individual is given the task of collecting the data, analyzing the data, and reporting the data back to the team. The team can then discuss options, modify actions or activities intended to achieve strategies, or just keep tabs on progress.

A Balanced Scorecard could be put together by simply including each report generated by the team members or designated individuals. On the following page is a simplified report of four measures – employee turnover, percentage of patients seen in ER within 15 minutes, patient satisfaction, and average days in accounts receivables. For each chart, the target is included. This example of a Balanced Scorecard is oversimplified but it doesn't need to be anymore complicated than a few charts with relevant data. This information can be collected, stored, analyzed, and reports generated in Microsoft Office products or other similar software products.

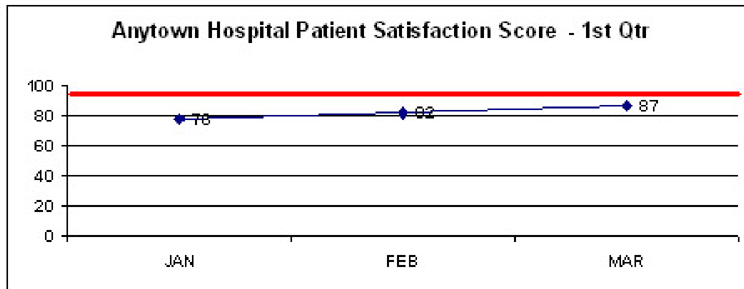
ANYTOWN HOSPITAL BALANCED SCORECARD



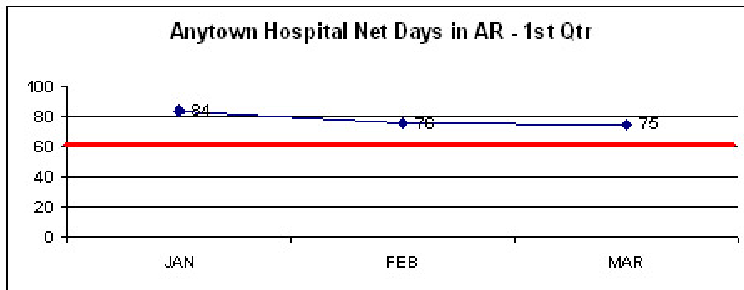
Target Level (0%)



Target Level (100%)



Target Level (95%)



Target Level (60)

Appendix 3: TERMINOLOGY DEFINITIONS[17]

1. Activity measures: These measures typically track the actions or behaviors an organization performs using its inputs of staff time and financial resources.
2. Balanced Scorecard: An integrated framework for describing and translating strategy through the use of linked performance measures in four balanced perspectives: Customer, Internal Processes, Learning and Growth, and Financial. The Balanced Scorecard acts as a measurement system, strategic management system, and communication tool.
3. Benchmarking: The comparison of similar processes across organizations and industries to identify best practices, set improvement targets, and measure progress.
4. Cascading: The process of developing aligned Scorecards throughout an organization. Each level of the organization will develop Scorecards based on the objectives and measures it can influence from the Scorecard of the group to which they report.
5. Cause and effect: The concept of cause and effect separates the Balanced Scorecard from other performance management systems. The measures appearing on the Scorecard should link together in a series of cause-and-effect relationships to tell the organization's strategic story.
6. Customer perspective: One of the four standard perspectives used with the Balanced Scorecard. The role of the Customer perspective is often elevated to the top of the Balanced Scorecard model in public-sector and nonprofit organizations.

[17] Niven, P.R., Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies; John Wiley & Sons, Inc., New York, New York, 2003.

7. Efficiency measures: These measures evaluate the cost of each unit of service delivered. They typically begin with "cost per…".
8. Employee learning and growth perspective: One of the four standard perspectives used with the Balanced Scorecard. Measures in this perspective are often considered "enablers" of the measures appearing in the other three perspectives. Employee skills, availability of information, and organizational climate are often measured in this perspective.
9. Financial perspective: One of the four standard perspectives used with the Balanced Scorecard. In public-sector and nonprofit applications of the Balanced Scorecard, measures in the financial perspective are viewed as constraints within which the organization must operate.
10. Government Performance and Results Act (GPRA): Signed into law in 1993, the GPRA requires federally funded agencies to develop and implement an accountability system based on performance measurement, including setting goals and objectives and measure progress toward achieving them. The law emphasizes what is being accomplished as opposed to what is being spent.
11. Human capital: May be considered a metaphor for the transition in organizational value creation from physical assets to the capabilities of employees-knowledge, skills, and relationships. Human capital is closely related to terms such as intellectual capital and intangible assets. Recent estimates suggest that as much as 75 percent of an organization's value is attributable to human capital.
12. Initiatives: The specific programs, activities, projects, or actions an organization will undertake in an effort to meet performance targets.

13. Input measures: These measures track resources used to drive organizational results. Typical inputs include staff time and financial resources.
14. Internal processes perspective: One of the four standard perspectives used with the Balanced Scorecard. Measures in this perspective are used to monitor the effectiveness of key processes the organization must excel at in order to continue adding value for customers, given the finite resources available.
15. Lagging indicator: Performance measures that represent the consequences of actions previously taken are referred to as lag indicators. They frequently focus on results at the end of a time period and characterize historical performance. Employee satisfaction may be considered a lag indicator. A good Balanced Scorecard must contain a mix of lag and lead indicators.
16. Leading indicator. These measures are considered the "drivers" of lagging indicators. There is an assumed relationship between the two that suggests improved performance in a leading indicator will drive better performance in the lagging indicator. For example, lowering absenteeism (a leading indicator) is hypothesized to drive improvements in employee satisfaction (a lagging indicator).
17. Measure: A standard used to evaluate and communicate performance against expected results. Measures are normally quantitative in nature, capturing numbers, dollars, percentages, and so on. Reporting and monitoring measures help an organization gauge progress toward effective implementation of strategy.
18. Mission statement: A mission statement defines the core purpose of the organization – why it exists. The mission examines the underlying principle for the organization, and

reflects employee motivations for engaging in the organization's work. Effective missions are inspiring, long term in nature, and easily understood and communicated.

19. Objective: A concise statement describing the specific things organizations must do well in order to execute its strategy. Objectives often begin with action verbs such as "increase", "reduce", "improve", "achieve", and the like.
20. Outcome measures: These measures track the benefit received by stakeholders as a result of the organization's operations. They may also be known as impact measures. Outcome measures track the extent to which an organization has achieved its overall goals. Possible examples include: "reduce incidence of HIV" and "increase perception of public safety".
21. Output measures: These measures track the number of people served, services provided, or units produced by a program or service. Number of inoculations provided and number of potholes filled are examples.
22. Perspective: In Balanced Scorecard vernacular, perspective refers to a category of performance measures. Most organizations choose the standard four perspectives (Financial, Customer, Internal Processes, Learning and Growth); however, the Balanced Scorecard represents a dynamic framework, and additional perspectives may be added as necessary to adequately translate and describe an organization's strategy.
23. Stakeholder: Any person or group that has a "stake" in the success of the organization. Stakeholders for public and nonprofit organizations may include: employees, customers and clients, funders, elected officials, citizens, special-interest groups, suppliers, media, financial community, and partners. All stakeholders must be considered when

developing mission, values, vision, strategy, and Balanced Scorecard objectives and measures.

24. Strategic management system: Describes the use of the Balanced Scorecard in aligning an organization's short-term actions with strategy. Often accomplished by cascading the Balanced Scorecard to all levels of the organization, aligning budgets, and business plans to strategy, and using the Scorecard as a feedback and learning mechanism.
25. Strategic resource allocation: The process of aligning budgets with strategy by using the Balanced Scorecard to make resource allocation decisions. Using this method, budgets are based on the initiatives necessary to achieve Balanced Scorecard targets.
26. Strategy: Represents the broad priorities adopted by an organization in recognition of its operating environment and in pursuit of its mission. Situated at the center of the Balanced Scorecard system, all performance measures should align with the organization's strategy. Strategy remains one of the most widely discussed and debated topics in the world of modern organizations.
27. Strategy map: Balanced Scorecard architects Kaplan and Norton coined this term to describe the interrelationships among measures that weave together to describe an organization's strategy.
28. Target: Represents the desired result of a performance measure. Targets make meaningful the results derived from measurement and provide organizations with feedback regarding performance.
29. Value proposition: A value proposition describes how an organization will differentiate itself to customers and the particular set of values it will deliver. To develop a customer value proposition, many organizations will choose one of the three disciplines articulated

by Treacy and Wiersema in the Discipline of Market Leaders: operational excellence (WalMart), product leadership (Nike), or customer intimacy (Nordstrom).

30. Values: Values represent the deeply held beliefs within the organization and are demonstrated through the day-to-day behaviors of all employees. An organization's values make an open proclamation about how it expects everyone to behave. Values should endure over the long term and provide a constant source of strength for an organization.

31. Vision: A powerful vision provides everyone in the organization with a shared mental framework that helps give form to the often abstract future that lies ahead. Effective visions provide a word picture of what the organization intends ultimately to become, which may be 5, 10, or 15 years in the future. This statement should not be abstract; it should contain as concrete a picture of the desired state as possible, and provide the basis for formulating strategies and objectives.

Appendix 4: ADDITIONAL RESOURCES

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Web sites

Balanced Scorecard On-line
www.BSCol.com

Balanced Scorecard Article - What is a Balanced Scorecard
www.activitybasedmgmt.com/Balanced_Scorecard.htm

Six Sigma and the Balanced Scorecard
www.healthcare.isixsigma.com/me/balanced_scorecard

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