Choosing the Future

Critical Information for Critical Times, Edition of Wednesday, January 20, 2016

Beyond the Numbers

As patients experience increasing financial pressures, including growing premium and out-of-pocket care costs (co-payments and deductibles), primary care service demand will decrease and primary care providers can expect to see their margins shrink.

It is no longer enough to tighten department staffing standards in the hope of reducing labor costs. The market place requires that hospitals develop a cost structure that will allow them to offer transparently competitive service pricing of quality services.

With this issue we begin a series of articles that will describe concrete steps that hospitals can take to achieve that goal. It is important to understand the principles that serve as the foundation of the approach. Accordingly, we strongly recommend that you take the time to read and digest the introductory material. We believe it offers valuable insights, particularly for readers who are interested in constructive cost reduction.

Why Does This Approach Work?

Labor cost management in many hospitals has meant periodically updating department labor staffing standards to meet annual budgeting goals. Some have gone beyond that by attempting to import Japanese quality management techniques such as LEAN and Six Sigma with varying degrees of success.

Although the process improvement focus of these industrial techniques has value, hospitals aren't factories, patients aren't widgets, and department managers aren't engineers. More importantly, the virtually-exclusive focus on work processes overlooks other performance limiting factor categories that must be considered if optimum results are to be achieved.

To provide a bit more background, I began what would become a life-long pursuit in 1971 when I was given the opportunity to manage a field test of techniques to measure and improve organizational effectiveness in the clinical setting under a Department of Health, Education and Welfare federal grant. That experience shaped my subsequent career as a hospital CEO and provided the unique insight into performance-limiting factors that has guided Brady & Associates' service to hospitals for more than 30 years.

1. Our service is built upon a practical understanding of the factors that limit human performance in the real world of hospital operations;
2. It opens the door to achieving significant improvement by identifying, prioritizing, and resolving performance limiting factors; and
3. It involves management and staff in solution development and recognizes the truly unique character of each hospital, thereby developing buy-in.

Please see the "About Us" page on our web site for more information about the scope of Brady & Associates' service experience.

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Foundational Assumptions

We use data, systems thinking, and change management techniques to help hospitals improve organizational effectiveness. Organizational Effectiveness is a measure of the extent to which the hospital optimizes mission attainment with available resources.

To optimize organizational effectiveness, the hospital must achieve excellence in all of these critical outcome areas:

- Cost
- Clinical and Service Quality
- Physician and Patient Satisfaction
- Employee Relations
- Community Image

Despite the fears of some that cost reduction can only be achieved at the expense of quality, these critical outcome areas are not competitive and mutually exclusive, but complementary. The factors that determine performance in these areas are not independent, but synergistic. Most importantly, the same factors that produce unacceptable cost outcomes also produce unacceptable outcomes in quality, physician and patient satisfaction, community image, and employee relations. When those factors are identified and dealt with, not only are costs reduced, but performance improves in all other critical outcome areas as well.

Achieving excellence in each critical outcome area should be defined as a primary department manager responsibility, explicitly identified in each position description. Performance in each critical outcome area should be specifically evaluated in each annual performance review. This assumes the existence of valid mutually-accepted metrics and sufficient data to support a fair evaluation.

Performance Limiting Factors

Departmental labor productivity is determined by far more than the scheduling assumptions and practices of the manager, although they are certainly very powerful. The factors that define the limits of potential performance actually fall into a hierarchy of categories ranging from institutional culture at the top, down through organization elements and resources, to systems and work processes at the bottom. Although there is considerable overlap and, in the real world, some performance limiting factors can be placed in more than one category, this taxonomy provides a useful way to understand how organizational performance is impacted and what can be done to improve it. Positively changing factors in the top levels will generally produce a greater organizational benefit than will positively changing lower level factors. In some circumstances, changes at the bottom levels are impossible (or will be ineffective) until changes at higher levels take place.

- Institutional Cultural Factors: The hospital's culture is defined by the beliefs and expectations of patients, the community, medical staff, management, and department employees and by the behaviors that flow from those beliefs and expectations. Examples of culture defining factors are the medical staff's assumptions about its relationship with the hospital, the focus and values of management, and employee beliefs about what constitutes a fair work load.
- Organizational Factors: These are the techniques, methods and structures the hospital uses to deploy its resources to perform the work required by its mission. They include the hospital and department organization charts; planning and coordination techniques; task allocations to departments, shifts, and staff; work and employee schedules; and the various ways used to communicate and share information. Factors falling into this category include whether the number of organizational levels existing between the "top" and the "bottom" (within and outside of departments) is appropriate, whether or not the span of control is consistent with the management style, and whether or not the organization can anticipate and prepare for change. In smaller hospitals particularly, this may require rethinking traditional organizational divisions along

department lines defined by technical and/or professional specialties. The hospital's human resources must be organized to meet need, consistent with quality and safety.

  - Leadership and Management Factors: These form a critically important subset under organization. These involve the respective roles, functions, and focus of the governing body, executive management, medical staff leadership, department managers, and supervisors. Factors included in this category run the gamut from placing decision-making at the appropriate organizational level (delegation) to maintaining the distinction between governance ("Are we doing the right things?") and management ("Are we doing things right?") to insuring that responsibility is commensurate with authority, and vice versa.

- Resource Factors: These include human resources, supplies, equipment, and physical plant. Factors of this type would include whether or not a department has the most effective mix of staff (by skill level, full-time vs. part-time, etc.), whether supplies are available in a timely way and in sufficient quantity, and whether or not the physical plant layout and available equipment permit optimum functioning.
- Systems and Work Process Factors: A process is a series of sequential steps designed to produce a given outcome. A system is a series of related or linked processes. Systems and processes have been the primary focus of quality management and continuous process improvement efforts. Factors of this type include whether or not standard processes are in place, whether or not work processes contain "complexity," and whether or not employees understand the structure of work. Process improvement offers significant opportunities for productivity improvement because one focus of the work is the elimination of complexity (steps that do not add value).

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In the next issue: Making it Happen (Moving from Theory to Practice)

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