Executing Strategic Plans in Healthcare Using Balanced Scorecards

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Executive Summary

Leaders of healthcare organizations (HCOs) searching for pragmatic means to execute their strategic plans have an answer – *Balanced Scorecards*, in use for over a decade across industry sectors, have helped executives in successfully (a) implementing their strategic plans, (b) monitoring the progress of these plans, and (c) making periodic adjustments to keep the organization on track. Leading HCOs across the US are actively using them in executing their strategic plans.

Balanced Scorecards have proved to be pragmatic and non-ambiguous tools that help align the whole organization's efforts towards realizing the strategic goals. They effectively communicate the strategic priorities and initiatives to a wide range of constituents including Board members, employees, customers, business partners, and the general public. This paper provides an overview of how HCO executives can use Balanced Scorecards to execute their strategic plans more effectively.

The Context

Leading a healthcare organization (HCO) such as a hospital, emergency or urgent care clinic, doctor's office, or an insurance company, is not different than leading *a* business. Whether for-profit or not, HCO leaders increasingly find themselves dealing with two major business challenges:

1. **How to develop an effective strategic plan?**
2. **How to successfully execute a strategic plan?**

An effective strategic plan for an HCO will likely address questions such as:

- How to increase market share, customer awareness, satisfaction and loyalty? How to enhance their perceptions of quality of care?
- How to improve revenues, be more cost-effective, and enhance surplus / profitability?
- How to improve operational performance, customer service, quality of care, and employee satisfaction and retention, etc.?

If you have already developed your strategic plan, your immediate and more demanding challenge is:

- How to **successfully execute, monitor and fine-tune** this strategic plan? Great strategic plans are worthless unless executed well!
- How to **align** operational efforts with the strategic goals so that all major parts of an HCO pull in the same direction?
- How to get **advance warning** about potential problems, enabling you to take remedial actions before it is too late?

Meaningful performance measures are essential for successfully executing a strategic plan. Yet, though most HCOs employ a complex array of performance measures at various levels, at the **executive** level, it usually boils down to traditional financial metrics such as cash flow, income and expenses. While this **after-the-fact** approach can tell much about the past, its value as a **guide for the future** is limited at best. By the time the executives review such financial information and identify a potential problem, the opportunity to salvage might be gone or, worse, the problem might have grown beyond control. Such financial measures are **necessary**, but **not sufficient** for executing a strategic plan.

Enter the Balanced Scorecard

Balanced Scorecard (BSC)[1] is a management tool that can significantly help execute strategic plans. BSCs have been implemented successfully across many industries including healthcare, financial services, manufacturing and distribution, for-profit and not-for-profit sectors, local, state and federal government, US military, among others.

Leading HCOs such as University of Wisconsin Hospital and Clinics, St. Mary's Hospital Medical Center in Wisconsin, St. Mary's / Duluth Clinic Health System in

[1] Developed in the early 1990's by Prof. Robert Kaplan of Harvard Business School and David Norton, Ph.D.

Minnesota, Duke University Hospital, Montefiore Medical Center, US Army Medical Command, Vanderbilt University Medical Center in Tennessee, St. Michael's Hospital in Toronto, Lawrence Hospital in New York, and May Institute in Massachusetts, are actively using BSCs to execute their strategic plans.

A simplified version of Balanced Scorecard includes information on **four perspectives (quadrants)** of an organization:

1. **Financial** - revenues, costs, reserves, surplus, profitability, etc.;
2. **Customer** - satisfaction, loyalty, retention, segments, consumption patterns, etc.;
3. **Operational** - customer service levels, quality, capacity utilization, throughput, productivity, response speed, accuracy, etc.;
4. **Employee** - satisfaction, retention, continued education, knowledge management, etc.

A BSC also utilizes a judicious mix of both, **leading** and **lagging** indicators[2]. Leading indicators tend to be more operationally focused, and help identify and manage issues before they become serious problems. Lagging indicators are more suited for strategic issues.

In this manner, the BSC **balances** the information from multiple perspectives rather than focus only on the financial aspects.

Most organizations prefer to customize their performance metrics for each of the four quadrants. The **key question**, then, is: How to develop meaningful metrics that not only display the true state of the HCO, but also provide advance warning and guide what remedial actions to take? The answer lies in **strategy maps**, which graphically show how the operational actions will support the strategic goals of an organization.

Case Study

The strategic plan of a $400 million service organization listed multiple **strategic themes**, two of which were: (a) "**increase customer loyalty**," and (b) "**increase innovation**." Figure 1 below shows how each strategic theme was to be realized through specific actions in each quadrant.

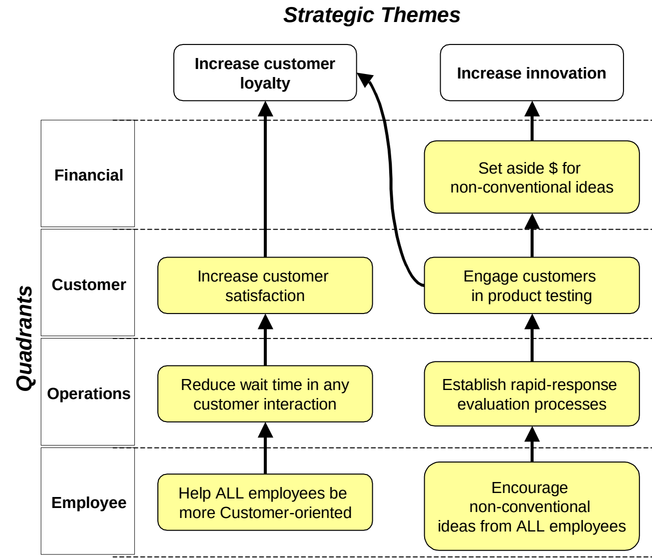

Figure 1: Example of a Strategy Map

For "increase customer loyalty," the measurable strategic goal was to increase loyalty from the current 65% to 73% within one year. The executives defined customer loyalty as "repeat business" from the same customer within six months. Then they identified "speed of response to customer requests" as a key determinant of customer loyalty, and identified actions they needed to take in each quadrant to improve response time. Their rationale was: greater customer orientation will reduce wait time for customers (goal: reduce any waits and delays by 20% in one year), leading to higher customer satisfaction (from current 75% to 85% in one year), and boost customer loyalty.

For "increase innovation," the measurable goal was to have 10% or more of total revenues from non-conventional products introduced in the last 2 years. The executives viewed non-conventional products (beyond mere extensions of current products) as the future engine of growth. They believed that their organization would become more innovative by:

- Engaging all employees in new product development by encouraging them to contribute non-conventional product ideas;
- Implementing a rapid-response process for evaluating such ideas within 6 weeks or less;

[2] **Leading** measures focus on factors and events that occur earlier in the process (e.g., high staff turnover, insufficient recruitment in a given quarter), while **lagging** measures focus on final outcomes (e.g., financial measures like revenues, which could possibly have been lower due to high staff turnover).

- Engaging customers early on in testing such non-conventional ideas; and,
- Setting aside 15% or more of the total R&D budget for non-conventional products.

After linking each strategic theme to specific actions and measurable goals, the executives used a mix of leading and lagging measures to track results. Regular review of their BSC highlighted where they had done well, and where they needed to pay more attention.

WHAT IS IN IT FOR AN HCO EXECUTIVE?

HCO executives can choose to implement BSCs (or some modified version) at multiple levels. For example, they might implement one macro scorecard at the corporate level, and subsequently, more detailed scorecards for each of the major divisions or departments (with clear and overt links to the corporate scorecard). A BSC can significantly assist HCO executives in:

1. Implementing their strategic plans by:
   a. **Aligning** the activities of major divisions and departments to support HCO's strategic plan, through the use of strategy maps;
   b. **Communicating** progress on key issues to different key constituents such as the Board of Directors and customer;
   c. Providing regular, **actionable feedback** on how well major initiatives and daily operations are supporting the strategic plan.
2. Managing specific initiatives and the HCO's operations by providing an **advance warning** system that flags problem areas before they grow out of control.
3. **Tracking** the return on investment (ROI) from strategic and operational initiatives.

SPECIAL ISSUES IN HEALTHCARE

BSCs have been implemented in many other industries for over a decade, and many lessons that have emerged are equally applicable to healthcare. However, HCOs also face some unique challenges:

- HCO's medical staff will likely have different perspectives on business problems than the business leaders. This might make it more difficult to get everyone's buy-in for a BSC approach. HCO executives should consider beginning with a pilot Scorecard at the top level of the organization, and "**cascade-down**" to specific divisions and departments in subsequent phases;
- Not-for-profit HCOs usually have to work with many more constituents (e.g., regulators, general public) than most for-profit commercial organizations. BSCs are flexible enough to adapt to such unique requirements;
- BSCs provide a clear, objective approach to measuring and managing the performance of an organization. The medical staff might view a BSC as an outside interference on how they take care of their patients; if so, they would naturally resist such efforts. HCO executives should involve the senior medical staff in developing the BSC right from the beginning, e.g., from the strategy map stage.

SUMMARY

BSC can be a significant tool for HCO executives in implementing their strategic plans, monitoring the progress on these plans, and for making periodic adjustments to keep the organization on track. BSCs have proved to be unambiguous and highly visible tools to align the whole organization's efforts towards realizing the strategic goals. BSCs are also valuable in communicating the strategic priorities, themes and initiatives of an organization to a wide range of constituencies, including Board Members, employees, customers, business partners, and the general public.

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