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5 Actions to Instill Financial Accountability

By Robert D. Betka, Jr.

Any hospital CEO will tell you that frontline managers are the backbone of the organization, essential to its success. On any given day, managers make decisions that significantly influence the financial performance of the organization—coping with staffing shortages, responding to variability in census, managing resources utilization, ensuring quality standards, and planning for the future.

The typical healthcare organization contains wide variation in managerial competency (novice to expert). Frequently, managers are promoted from within, and often, they experience a complicated transition from the clinical or technical ranks. Too often, the manager is challenged to undertake a new set of managerial responsibilities without the benefit of formal training. Gaps in the manager's understanding of financial principles, lack of clearly defined performance expectations, and the absence of management tools frequently result in manager frustration and underperformance.

So, how can organizations strengthen frontline management competencies to better ensure the organization's financial

viability and operational performance? We have observed five actions that high-performing organizations execute effectively that provide the framework for instilling financial accountability into frontline managers.

Strategies for Success

Taken together, these five actions will instill accountability with front line managers and provide a framework for organizational success.

Set expectations for performance. “So, tell me about your business.” That’s the opening question one CNO uses in her first meetings with her direct reports. Expecting managers to think like businesspeople and align departmental goals with systemwide goals and performance expectations is critical to instilling financial accountability. Performance expectations must be crystal clear and time bound (e.g., improve operating margin by 3 percent within the next fiscal year).

Most organizations excel at defining overall performance expectations, but fall short in communicating the expectations to managers. One extremely

effective way to establish expectations is to embed them into the organization's performance management system and migrate toward a performance-based rewards system. Managers also must understand their sphere of influence: what is and is not within one's purview. This is critical to being able to focus energy on controllable factors, not get led astray, and positively influence results.

Educate, train, and develop new managers.

Organizations that invest in continuous learning and management development are better positioned to achieve ROI in terms of improved operational performance. The conceptual understanding of the development from novice to expert is grounded in the idea that experience provides the opportunity to integrate and internalize theoretical knowledge into expertise. Organizations that embrace this concept empower managers through education and skill development and position their managers for success.

Several organizations we know provide a “budget boot camp” to new frontline managers. The program provides

education and hands-on training on key financial and operational concepts. It expands manager's understanding of key financial concepts and how they integrate into daily practice; allows managers to explore strategies and leading practices that enhance the manager's ability to effectively manage resources; and promotes shared practice solutions and innovative approaches for daily management challenges.

Some high-performing organizations practice early identification of high-potential staff (up-and-comers) and begin premanagement training with challenging, stretching assignments, followed by career tracking and further development. A few large health systems have developed formal talent management programs, modeled on those of GE and other large enterprises, in which high-potential managers are rotated through various managerial posts at successive operating units to develop broad and deep management skills.

Standardize performance measures. An organization cannot manage what it cannot measure. High performance organizations relentlessly measure what is important to support their mission—financials, volume, service, quality, and growth. Adopting a “balanced scorecard” approach provides a clear link between departmental operating results and enterprise performance. Benchmarking hospital performance at the enterprise, facility, and department cost center levels provides a process for comparing an organization's performance to that of other organizations using objective criteria. Benchmarking typically compares financial, operational, and quality indicators with best practice or peer organizations. Comparison with peers is helpful in determining whether the organization's capabilities or processes

are strengths or weaknesses. Variances become the basis for initiating performance improvements.

It's critical that senior management commit to coordinating and integrating the myriad tracking and reporting systems most hospitals have so that measures are consistent. Top management should be responsible to line managers for ensuring that systems provide accurate and timely management information. Business intelligence (decision support) tools can serve a vital function in this regard.

Monitor and report on performance routinely.

Established expectations, engaged managers, defined metrics, and adoption of organizationalwide benchmarking lay the foundation for advancement to evidence-based management. Evidence-based management is simply utilizing timely, accurate, statistically sound data to drive decisions and optimize performance. A performance measurement framework with robust reporting capability provides the “evidence” and is the key to linking performance to the organization's strategic plan. Performance reporting will have key indicators drawn from four broad categories of reporting:

- > Volume/statistical reporting: provides historical volume information; can be used to explore trends and forecast
- > Productivity reporting: provides workload statistics which links daily staffing decisions to productivity
- > Financial reporting: provides revenue and cost data related to volume and resource consumption
- > Quality reporting: measures defined processes or outcomes against targets

Provide a feedback loop. The surest way to provide feedback on performance is during day-to-day unit management—walking around and interacting with

staff, listening to concerns, providing guidance. Prompt feedback that promotes action while underlying causes are still fresh in the manager's mind is a characteristic of best-practice management systems. As to formal reporting, neither quarterly reports that arrive months later nor monthly budget reports arriving four weeks after period end are helpful. For some costly and highly variable functions (nursing units, food service, imaging), reporting should be on a daily or shift basis with emphasis on forecasting workloads as well as monitoring productivity in real time.

Core staffing patterns and flexible staffing grids can assist managers and directors in compensating for fluctuations in patient or procedure volume. At the simplest, but eminently functional, level are spreadsheet-based staffing tools that can be populated to create staffing patterns for a range of varying census or volume levels. As a result, staffing will be aligned with nurse-to-patient (or tech-to-procedure) ratios and labor cost-per-volume targets.

Next: Review Performance

Three periodic formal reviews are recommended. Monthly reporting and quarterly budget reviews involving both the accountable vice president and the CFO provide a strong incentive for honesty and accountability. Quarterly business reviews with vice presidents and finance provide a further, more strategic measure of operating performance. And annual business and performance reviews link the degree of achievement of operational performance levels to manager's compensation and set the foundation for future goal setting. ☞

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