



Mobilizing Strategic Change Using the Balanced Scorecard

(videotaped presentation)

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Today's Presentation

- SMDC overview
- Pre-BSC Strategic Planning
- Beginnings, evolution of BSC process and results
- A new era of accountability
- Judge the results

Health System Overview

- St. Mary's Medical Center- 380 beds
- Miller Dwan Medical Center - 166 beds
- St. Mary's Hospital of Superior - 55 beds
- Pine Medical Center- 30 acute beds, 86 skilled nursing beds
- More than 6,000 employees
- 352 employed physicians representing 40 medical specialties
- 25 community clinics throughout northern Minnesota, Wisconsin, and Upper Michigan



Strategic Planning Before BSC

As a newly merged organization, we engaged a well-respected, national strategic planning firm to help develop our first strategic plan.

Resulted In...

- A *very* “comprehensive” plan -- 350+ initiatives!
- Contained no real accountability for implementation.
- An essentially political process. Anyone who had an “agenda” got their item in the plan.

Consequently...

- The Board of Directors remained unfocused and confused about their role.
- Management and employees had no clue about the strategic direction of the organization.
- Gradual decline of margin in a 2% world because the organization had no strategic focus.

Other factors at play:

- Changes in the external healthcare environment, such as the Balanced Budget Act.
- Coupled with the instability of a newly merged organization.

How we discovered the BSC

- CEO read Harvard Business Review article
- Executive team embarks on first BSC

1st Year Progress... and Pitfalls

- Progress
 - Began tracking organizational performance on more than a financial basis.
- Pitfalls
 - Functioned primarily as a new kind of “dashboard report”.
 - Rather than a new way of running the organization, was simply one more thing to do every month.
 - No connectivity of the measures to drive organizational success.

FY1999 CORPORATE LEVEL BALANCED SCORECARD

Financial			Customer			Operational			People			Technical		
Indica-tor	Tar-get	FY99 Final	Indica-tor	Target	Stat-us	Indica-tor	Target	Stat-us	Indica-tor	Target	Stat-us	Indica-tor	Target	Stat-us
Adjusted Discharges	23,890	23,592	Patient Satisfac-tion	Choose key focus areas for improvement	C	Arranging Care	Determine outpatient phone model, conduct pilots	C	Cultural Develop-ment	Complete communi-cations strategy	C	Quality Improve-ment	Implement system-wide governance structure	C
Encounters	912,188	892,243	Employer Satisfac-tion	Complete survey develop-ment in CY 1999	CY		Determine outpatient model for registration & scheduling	C		Complete physician survey	C		Complete external quality report in CY 1999	CY
Cost per Adjusted Discharge	6,964	7,535	HEDIS Indicators	Select indicators for develop-ment plan	M	Providing Care	Determine model for patient delivery system for clinical divisions	C		Complete employee survey	C		Meet or exceed standards for SMDC accreditation	C
Cost per Encounter	215	252	Com-munity Service	Complete reporting process and inventory	C		Complete system strategy for ambulatory surgery	C		Complete plan to maintain Catholic-ity	C	Informa-tion Technol-ogy	Complete IT strategic plan in CY 1999	CY
Operating Margin	2.0	1.3	Communi-ty Aware-ness	Complete survey in CY 1999	CY	Docu-menting and Tracking Care	Complete plan for decentralized coding and charge entry	C	Employee Relations Strategy	Accom-plish "pay equity"	C		Complete Y2K compliance by 12/99	CY
Excess Margin	3.8	3.3	Market Share	Complete baseline	C	Innova-tion and Program Develop-ment	Complete feasibility study for a women's health center	C		Synchro-nize employee benefits	C	Medical Education & Research	Complete report of funded grants and publications	C
Days Cash on Hand	103.6	108.6					Complete plan for a geriatrics program	C				Facilities Planning	Complete Perkins & Will plan	M
Days in Accounts Receivable	77.7	82.8												
Return on Investment	3.4	2.9												

"C" = task completed; "CY" = Calendar Year 1999 task; "M" = task modified

Finance section: Target met; Target not met

The Problem...

We were trying to work with a performance measurement tool in advance of crafting a focused business strategy.

The Organization was Ready for a New Approach

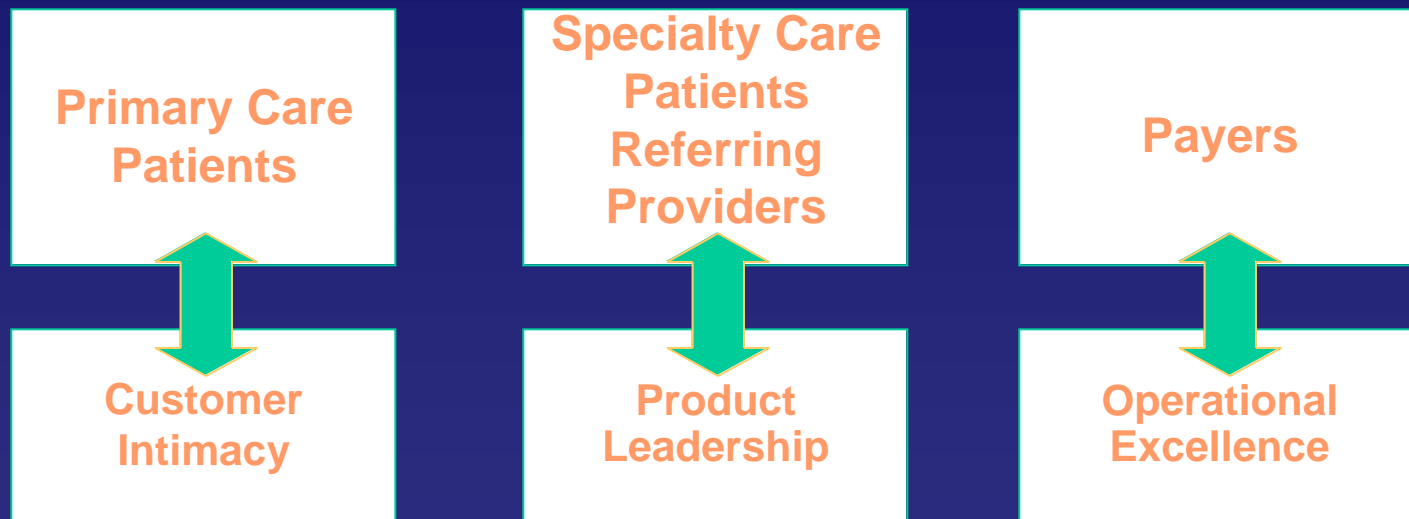
- Old “healthcare strategy formulation” didn’t work and we needed to look outside the healthcare industry.
- The Senior Team attended a Balanced Scorecard Collaborative conference, then spent time studying and discussing the principles.
- Decision was made to take a different approach to strategy development.
- Engage the BSC Collaborative to work with us to create a strategy map.

The New Strategy Design Process; Building the Strategy Map

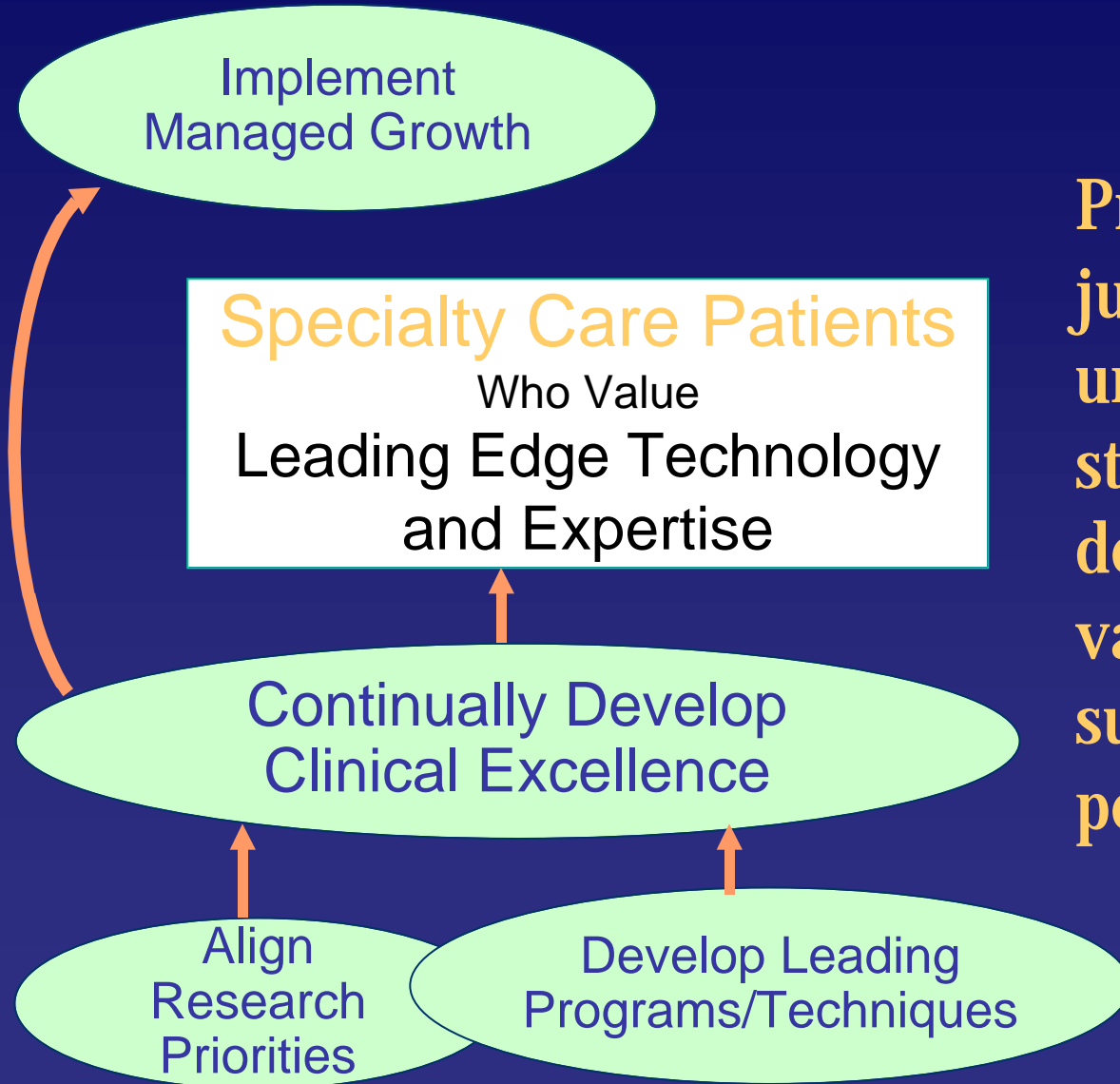
- We began to view ourselves as a business and identified our high margin, market opportunities, which shaped the financial dimension of our strategy map.
- This increased margin opportunity would then allow us to reinvest in the non-growth areas of the organization.
- This intentional growth strategy would help us be more honest internally about where the organization needed to grow.

Customer Dimension

Value propositions provided clarity



Cause and Effect Relationships

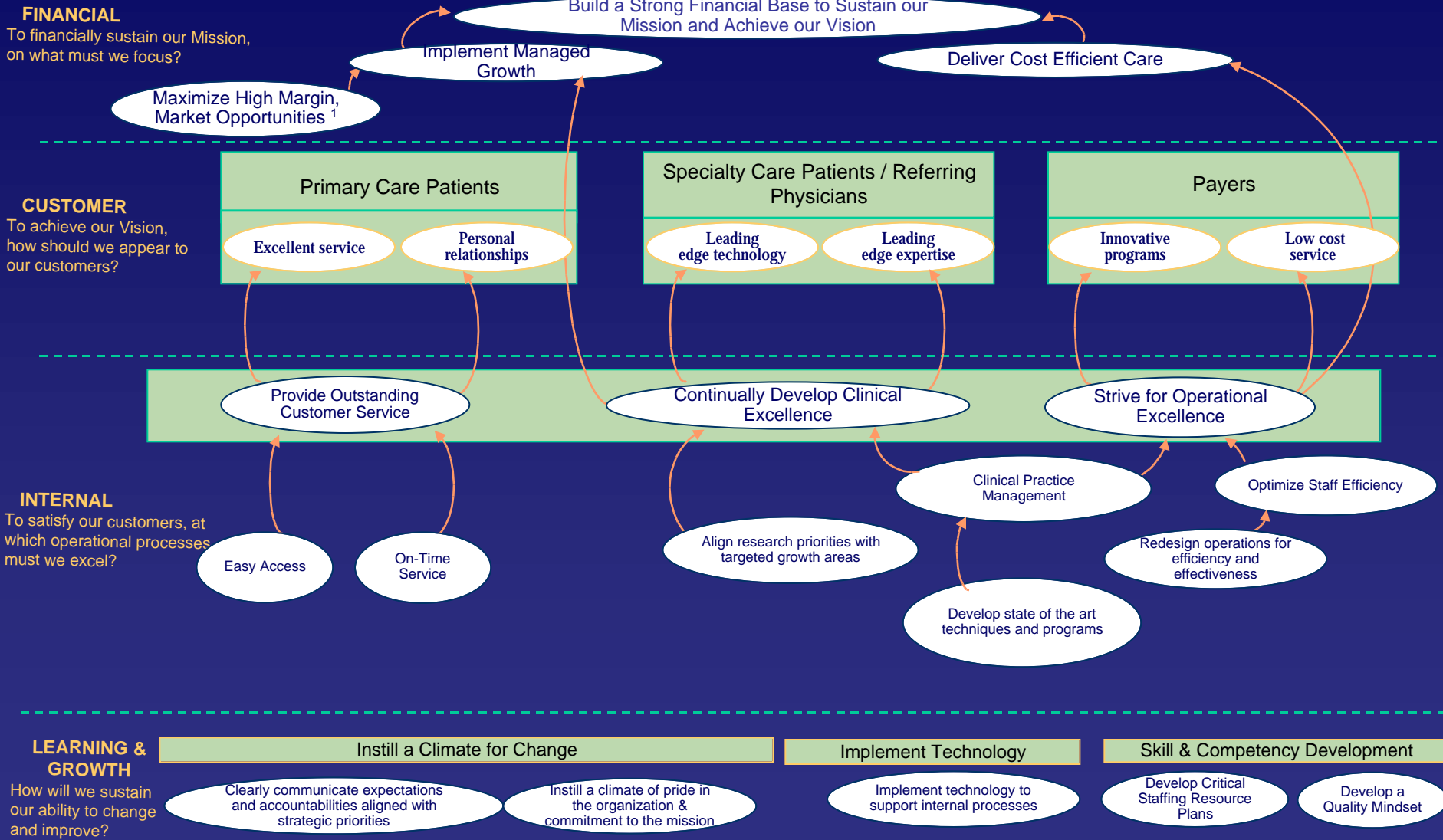


Provided the jumping off point for understanding the strategic drivers that deliver on customer value and achieve successful financial performance.

FY 2002 Strategy Map

Vision:

SMDC is a values-driven, integrated organization which will be recognized for excellence in customer service, quality patient care, financial strength, and support of community health



SMDC

Balanced Scorecard Initiatives FY2002

	Objectives	Measures	Targets	Initiatives
Financial	Build a Strong Financial Base	⊙Operating Margin (Budget/Margin Improvement Goal)	⊙2%	Implement growth strategies in focused areas: ⊙ Cardiothoracic ⊙ Orthopedics ⊙ Neurosurgery ⊙ Cancer ⊙ Gastroenterology ⊙ Radiology ⊙ Surgery Implement Virginia campus and business plan Implement phase 2 Superior campus business plan
		⊙Non-Operating Return (Budget)	⊙9%	
	Implement Managed Growth	⊙ROI on growth initiatives	⊙44.8%	
		⊙Market Share (Acute/Ambulatory) (Annual)	⊙32.6% Acute ⊙53.7% Ambulatory	
	Deliver Cost Efficient Care	⊙Operating expense(cost)/adjusted discharge*	⊙\$4,676	
⊙Drug expense/encounter		⊙\$7.65		
⊙Drug expense/adjusted discharge*		⊙\$135		
⊙% compliance to formulary		⊙80%		
⊙Supply expense/adjusted discharge*		⊙\$693		
Customer	Primary Care Patients	⊙Provider Patient Satisfaction (Semi-Annual)	⊙48% excellent rating ⊙31.5% Acute ⊙52% Ambulatory	Implement Quality Plans to improve overall patient satisfaction Define SMDC value to the market and implement marketing plan
		⊙Primary Care Market Share (Acute/Ambulatory) (Annual)		
	Specialty Care Patients / Referring Physicians	⊙Growth area market share (Annual)	⊙39.9% Acute ⊙57.8% Ambulatory	
		⊙Acute care patient satisfaction (Quarterly)	⊙44% excellent rating	
Payers	⊙% BC/BS member satisfaction	⊙Establish baseline		
Internal	Provide Outstanding Customer Service	⊙Satisfaction with lobby wait times	⊙29.3% excellent rating	Develop & implement Duluth campus way finding plan Continue implementation of open access Develop & implement Duluth campus facilities refurbishing plan
		⊙% of providers that meet appointment access standard	⊙70%	
		⊙Telephone access	⊙47% of clinics meet standard	
		⊙% clinics with open access	⊙50%	
	Continually Develop Clinical Excellence	⊙% clinical depts with Quality Plans	⊙100%	Develop & implement new clinical pathways recommended by the IQC Implement Primary Care Committee initiatives Develop & implement patient safety program
		⊙% of patients on approved clinical pathways	⊙70%	
		⊙# of research grants & % in targeted growth areas	⊙60%	
	Strive for Operational Excellence	⊙% sections meeting encounter targets/day	⊙100%	Continue implementation of volume and schedule management system Implement diversion avoidance plan Implement hospital medicine service Implement a consistent model of care for patients in critical care units Develop & implement HIPAA compliance program
		⊙Diversion	⊙5 hrs/month	
		⊙Length of Stay	⊙4.32 days	
		⊙RVU/non-provider FTE	⊙849	
		⊙FTE/adjusted discharge*	⊙4.97	
		⊙Salary cost/adjusted discharge* (SMMC & SMHS)	⊙\$2,573	
		⊙Salary cost/Encounter	⊙\$69	
		⊙Days in Accounts Receivables; ⊙ Acute ⊙ Ambulatory	⊙60 Acute ⊙73 - Ambulatory	
⊙Bad Debt		⊙2.1%		
⊙Charitable Care (Semi-Annual)	⊙\$5.8 million			
Learning & Growth	Climate for Change and Commitment	⊙ % of employees who can identify the organizations focus areas (Quarterly)	⊙90%	Continue development of BSC across all departments Organization wide program regarding commitment & pride...Values In Action Implement Roots of Our Caring Program Implement Employee & Physician Satisfaction survey Create improved support structure for physicians and other providers
		⊙Employee/physician satisfaction ⊙Performance to Values In Action Plan	⊙Establish baseline ⊙100% on track	
	Technology	⊙Performance to EPIC plan	⊙100% on track	
Skill & Competency Development	⊙% growth areas strategic staffing positions filled (Quarterly) ⊙Performance to Quality Education and Accountability Plan (Quarterly)	⊙100% ⊙100% on track	Revise nursing structure and delivery model Implement strategic staffing & recruitment plans Implement quality education and accountability model Develop information management department	

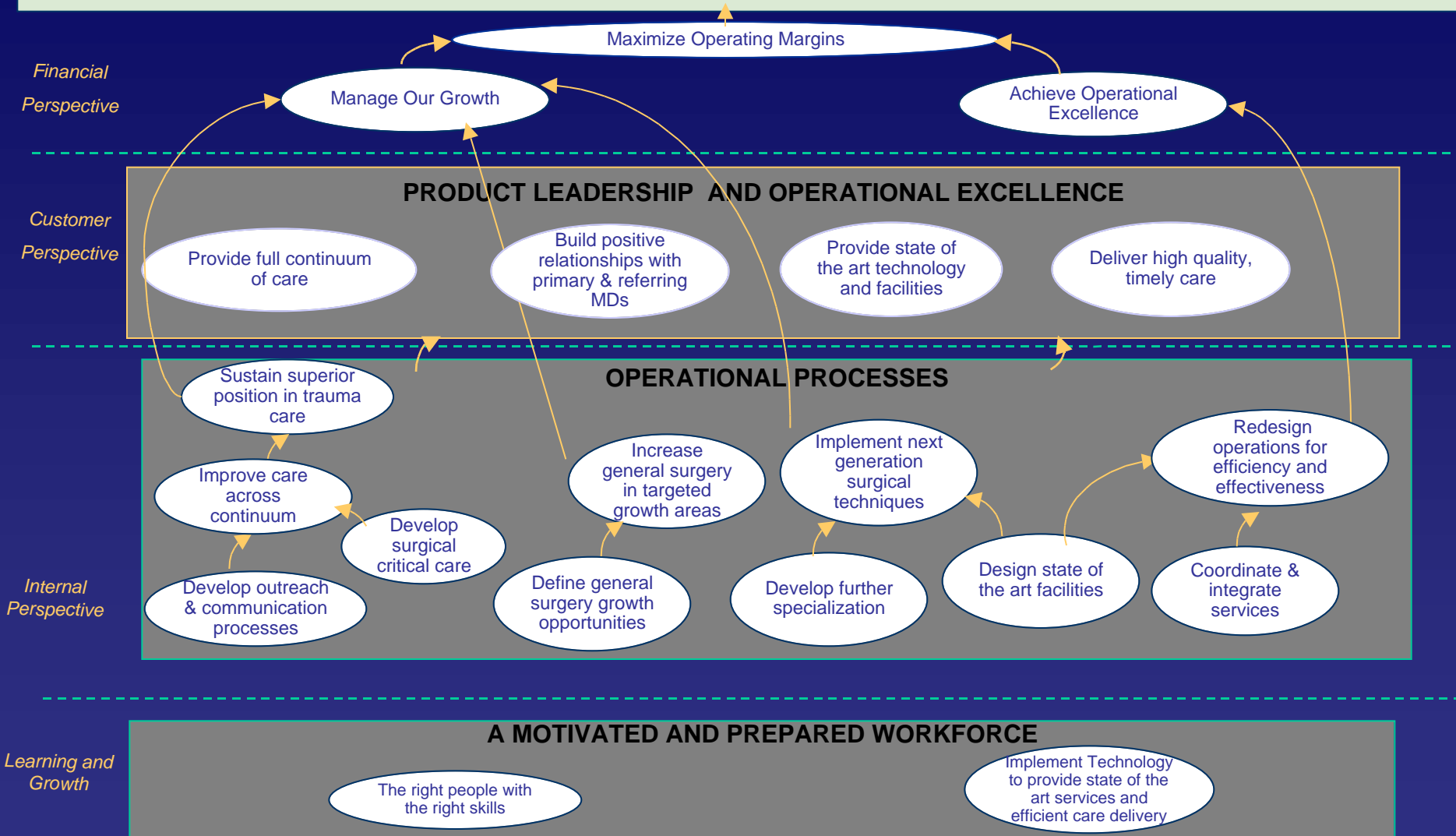
* Case mix adjusted

Cascading the scorecard methodology throughout the organization

*1 Surgery Growth Area - Strategy Map

Vision:

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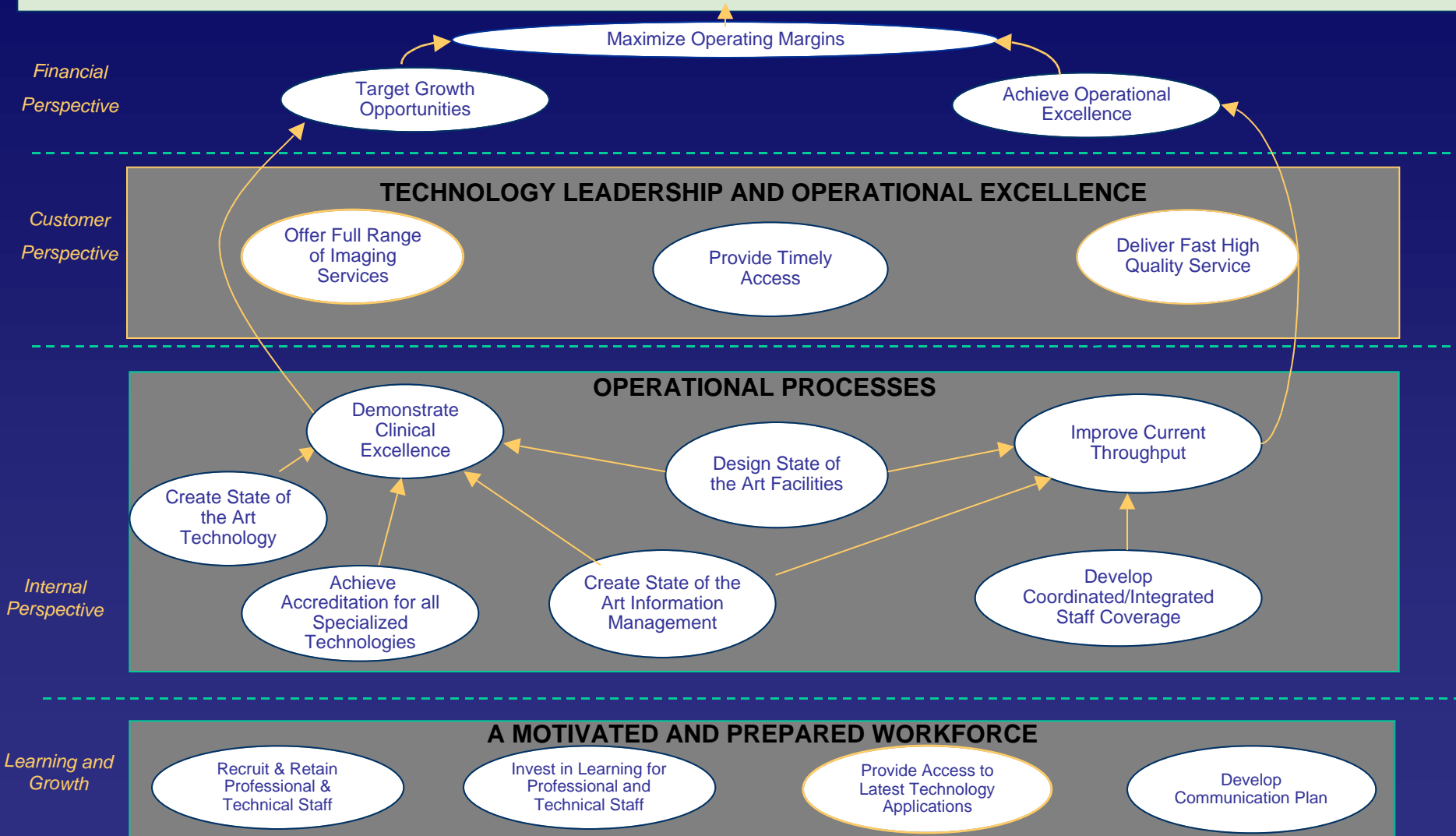


*1 Trauma & Surgical Care, Vascular, General Surgery

Radiology – Strategy Map

Vision:

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Regional Clinics Strategy Map and Balanced Scorecard

FY 2002 Strategy Map

Vision:
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FINANCIAL
 To financially sustain our Mission, on what must we focus?

Build a Strong Financial Base to Sustain our Mission and Achieve our Vision

Implement Managed Growth

Deliver Cost Efficient Care

Maximize High Margin, Market Opportunities ¹

CUSTOMER
 To achieve our Vision, how should we appear to our customers?

Primary Care Patients

- Excellent service
- Personal relationships

Specialty Care Patients / Referring Physicians

- Leading edge technology
- Leading edge expertise

Payers

- Innovative programs
- Low cost service

INTERNAL
 To satisfy our customers, at which operational processes must we excel?

Provide Outstanding Customer Service

Continually Develop Clinical Excellence

Strive for Operational Excellence

Easy Access

On-Time Service

Clinical Practice Management

Align research priorities with targeted growth areas

Develop state of the art techniques and programs

Redesign operations for efficiency and effectiveness

Optimize Staff Efficiency

LEARNING & GROWTH
 How will we sustain our ability to change and improve?

Instill a Climate for Change and Commitment

Clearly communicate expectations and accountabilities aligned with strategic priorities

Instill a climate of pride in the organization & commitment to the mission

Implement Technology

Implement technology to support internal processes

Skill & Competency Development

Develop Critical Staffing Resource Plans

Develop a Quality Mindset

	SMDC Deer River FY02 Balanced Scorecard			
	Objective	Measure	Full Year Target	Initiatives
Financial	Build a Strong Financial Base	Contribution Margin	Improve margin \geq 10% over FY01	Recruitment of an MD/Provider. Initiate services at Remer 5 days / week. Evaluate new or growth service lines and outer ring revenue resources. Explore opportunities for radiology revenue sharing.
	Deliver Cost Efficient Care	Salary Costs/Encounter	Salary Costs \leq \$35 per Enc.	Scheduling Initiative
		Supply Costs/Encounter	Supply Cost \leq \$8 per Enc. FY02 End	Supply Initiative
Customer	Excellent Service	Customer Satisfaction with Telephone Access	40%	
Internal	Provide Outstanding Customer Service	% of Providers on Open Access	70%	Advanced Access Initiative
		Telephone Access	No trunk line busy mins.	ACD Initiatives
	Strive for Operational Excellence	Encounter Targets Met	100%	Volume Management Initiative
	Clinical Practice Management	% Diabetic Flow Sheet Utilized	60%	Clinical Pathway Initiative
Learning & Growth	Instill a Climate for Change and Commitment	Team Meetings	14	Create & follow meeting schedule. Keep staff appraised of new developments, practice management data & new operational models through meetings, informal comm. & memos.
	Skill & Competency Development	% Employees completing Annual Competency Requirements	50%	Develop and Implement Competency Plan
	Implement Technology	% Employees / Providers Participating in IT Initiatives	90%	Thin Client Initiative Epic Preparation

Relationship of the Map to Annual Initiatives

- Annually, at budget time, we revisit the strategy map to reaffirm strategic objectives or make minor changes
 - review measures to assure they are truly informing us of performance
 - set targets for next fiscal year
 - develop initiatives to deliver the targets

A New Era Of Accountability

- Monthly executive leadership Strategic Operating Review meetings:
 - review monthly performance indicators
 - discuss measures that are not meeting target and course correction plans
 - majority of the meeting spent discussing strategic issues within the context of our strategy map
- VP-level bi-weekly initiative progress meetings

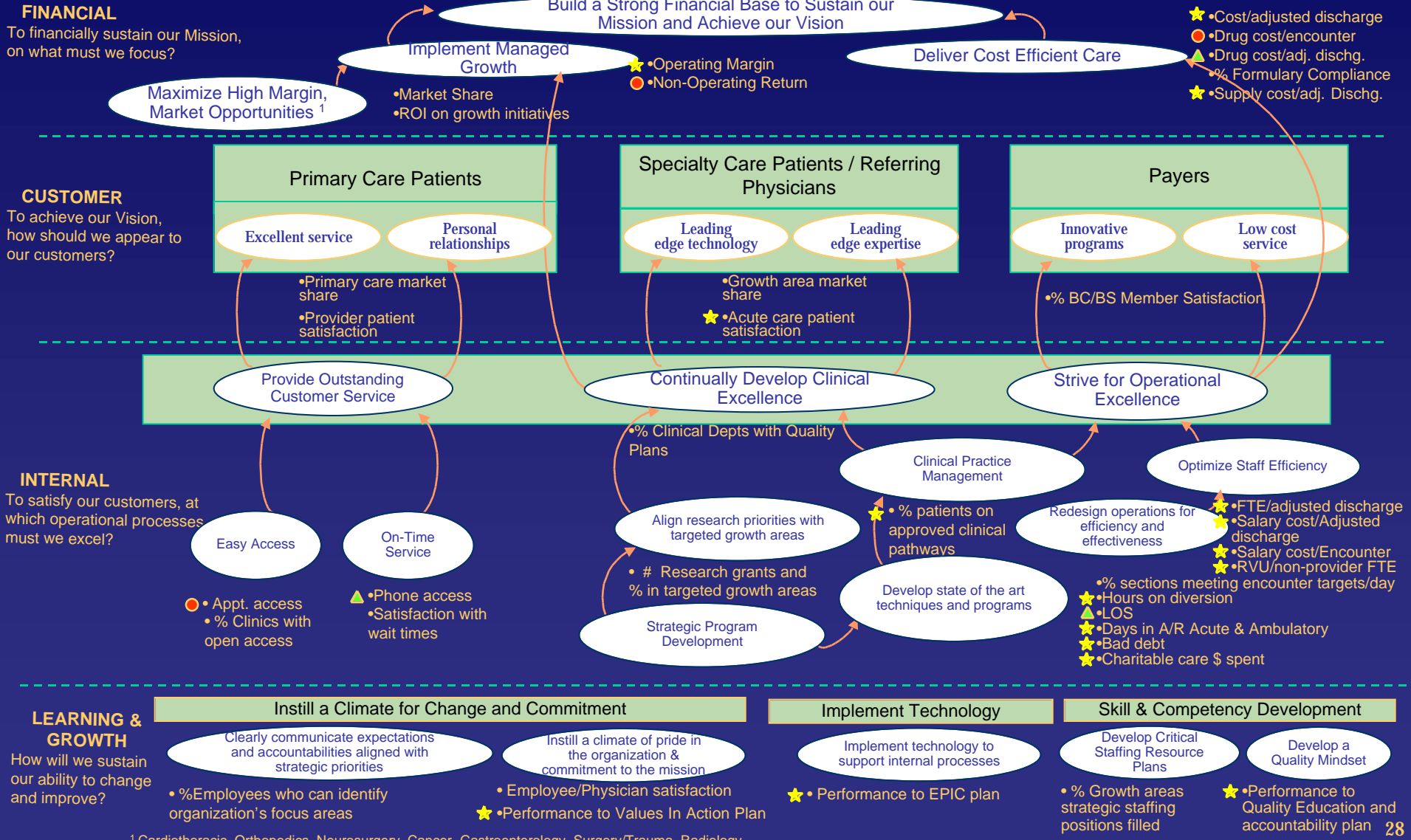
A New Era Of Accountability

- **Line management and employees**
 - Organizational performance, strategic direction meetings held quarterly
 - Weekly 1/2 hour management briefings
 - Bi-annual employee forums
- All meetings use the framework of the strategy map and scorecard to communicate priorities and report on performance
- Monthly results reported to the whole organization via the intranet

FY 2002 Strategy Map with Measures

Vision:

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¹ Cardiothoracic, Orthopedics, Neurosurgery, Cancer, Gastroenterology, Surgery/Trauma, Radiology

SMDC Balanced Scorecard																
FY02 YTD																
	Measure	Accountable Sr VP	Freq	Actual July	Actual Aug	Actual Sep	Actual Oct	Actual Nov	Actual YTD	Target YTD	Status					
FINANCIAL	Operating Margin \$	THK	M								★					
	Non-Operating Return \$	THK	M								🔴					
	Cost/adjusted discharge *	MAJ	M	Proprietary Information								★				
	Drug cost/encounter	MAJ	M													🔴
	Drug cost/adjusted discharge *	MAJ	M													▲
	Supply cost/adjusted discharge *	MAJ	M													★
Acute Care Patient Satisfaction SMMC	MAJ	S										49.2%		49.2%	44%	★
Acute Care Patient Satisfaction SMHS	MAJ	S										56.5%		56.5%	44%	★
INTERNAL	Appointment Access	MAJ	M	50%	58%	69%	74%	66%	66%	70%(Q2 Target)	🔴					
	Phone Access	MAJ	M	25%	12%	25%	28%	34%	34%	37%(Q2 Target)	▲					
	% Patients on Approved Clinical Pathways	MAJ	M	N/A	78%	87%	75%	72%	72%	55% (Q2 Target)	★					
	FTE's Per 100 Adjusted Discharge*	MAJ	M	5.25	4.84	4.83	4.93	5.11	5.01	5.50	★					
	Salary cost/Adjusted discharge*	MAJ	M								★					
	Salary cost/Encounter	MAJ	M								★					
	RVU/non-provider FTE	MAJ	M	814	733	836	1,014	803	836	830	★					
	% Sections meeting encounter targets/day	TCN	M	N/A	N/A	N/A			N/A	TBD						
	Hours on Diversion	MAJ	M	58	117	28	65	11	11	20(Q2 Target)	★					
	Length of Stay	MAJ	M	4.75	4.45	4.70	4.60	4.44	4.59	4.32	▲					
	Days in accounts receivable; ambulatory	THK	M	59.67	59.85	65.77	59.02	60.24	60.24	73	★					
	Days in accounts receivable; acute	THK	M	50.57	53.52	59.64	54.10	55.60	55.60	60	★					
	Bad debt	THK	M	2.17%	2.08%	2.55%	2.11%	1.33%	2.06%	2.08%	★					
Charitable care \$ spent	THK	M								★						
LEARNING	Performance to Values In Action Plan	MAJ	M	Milestone met	Milestone met	Milestone met	Milestone met	Milestone met	Milestone met	On plan	★					
	Performance to EPIC plan	THK	M	Milestone met	Milestone met	Milestone met	Milestone met	Milestone met	Milestone met	On plan	★					
	Performance to Quality Education and Accountability Plan	MAJ	M	Milestone met	Milestone met	Milestone met	Milestone met	Milestone met	Milestone met	On plan	★					
	* Case Mix Adjusted															
Status	On Plan	★														
	Progress toward Plan	▲														
	Off Plan	🔴														

Judging the Results

- A complete paradigm shift for developing and implementing organizational strategy.
- Increased executive, management, and physician/staff accountability, but now with clearly defined targets.
- Aligning the entire organization through a common set of well understood objectives.
- Platform for developing a single organizational culture.
- Effective communication tool for governance, administration, management, and employees.
- Consistency of message.
- \$18 million dollar financial turnaround and return to profitability.
- Growth strategy success leading to sustained financial performance at a level to fund new facilities
- Improve patient satisfaction results