THE HEALTHCARE BUSINESS LETTER

News & Views for Clients & Associates of The *ARSI* Group • www.TheARSIGroup.com • 1 630-773-1395 VOLUME 3, ISSUE 1

Assessing and Evaluating Healthcare Organizations

By James A. Muschler

Every healthcare organization has its own unique strengths and weaknesses. Each physician has their own way of handling the clinical and business aspects of the organization. The process of assessment or evaluation depends on the goals and objectives established by each organization's owner or owners.

Defining the Measures

Although there are numerous ways to evaluate performance, every evaluation consists of two components - a measurement tool and a benchmark or standard. The measurement tool generally takes the form of a survey or self-audit with several key areas of organization operations being evaluated. Typical areas evaluated include patient intake, service quality, administrative effectiveness, organization profitability and effectiveness of accounts receivable/collections activity. Performance benchmarking may utilize a "relative" standard, which compares your organization against industry standards, against similar healthcare or related "professional" organizations, or against selected "elite" organizations. Benchmarking can also involve the use of a longitudinal standard, using the same measurement tool to compare performance over time, measuring your organization's performance on monthly, quarterly or annual basis.

In measuring the functional areas of organization performance, organizations generally express their results as a ratio. For example, profitability and operating costs are typically expressed as revenue per FTE physician or costs per procedure. Productivity, capacity and staffing are usually expressed as procedures per FTE physician, gross charges per FTE physician, or gross charges per sq. ft. office. Accounts receivable and collections are typically expressed as adjusted fee-for-service collection percentage, percentage of A/R over 60 days and collection-at-time-of-service percentages.

The 'No-Payment' Analysis

Recently, during HFMA's Revenue Cycle Strategies series in Las Vegas, Todd Halpin, a consultant and presenter with Phase 2 Consulting, identified the "No Payment Analysis" to be used as one important assessment category. The purpose of this assessment is to identify and quantify 'no payments', and the reason they exist. In this assessment the healthcare organization would analyze accounts with no-payment or accounts where contractual adjustments are greater than 90% of the charges. The assessment would also quantify accounts by payor and service location to determine trends and prioritize the implementation of solutions. The result is a determination of root causes for any 'no payment' or partial payment in the system, but also evaluate any and all of the processes from scheduling to payment posting in order to identify the issue, prioritize the organizations response and action plan, and implement the developed solution.

Mr. Halpin told the attendees, "the purpose of this 'No Payment Analysis' is to analyze and quantify the impact of any no pay or partial pay accounts by payor, by service line, and revenue cycle process by using real data to identify opportunities that exist within a particular area of the revenue cycle. By doing this, we increase the likelihood of allocating our time and resources on those issues that have the greatest impact on profitability."

Depending on their goals, objectives and current challenges, the best performing organizations typically focus on controlling operational costs and improving efficiency rather than attempting to maximize revenues. This involves the collection of both cost and performance quality data, which will help in making decisions regarding investments in the redesign of quality management processes and the improvement of operations, such as the purchase of a better information system.

Knowing Your Costs

Of paramount importance in any assessment survey is the collection of cost data and the reporting of productivity measures. Achieving both cost containment and performance effectiveness involves not only a careful examination of ways to identify and control both variable and fixed costs but also a search for ways to work smarter. This may include determining the cost of providing patient care by patient type, type of service and payor; relating expenses to the activities that create revenue; documenting transaction costing (allocating expenses associated with service delivery thereby identifying the Relative Value Units that payors use to determine your reimbursement). Identifying the organization's true cost of delivering a "Unit of Care" can also improve your negotiating position with the payors

For organizations striving to deal with such challenges as rising costs, increased competition, reduced reimbursements or specific profitability/productivity goals, this same cost and performance quality data are equally valuable. However, in these cases this data should be used as an indicator to help guide the organization toward attaining its specific goal. For example, for the organization seeking to keep pace with rising administrative expenses, periodic

THE HEALTHCARE BUSINESS LETTER

The ARSI Group

19W068 Granville Road
Itasca, Illinois 60143

(630) 773-1395
(630) 773-1396

Editor:
James Muschler

Managing Editor:
Karen Schumacher

Editorial Advisors:
Deepa Malhotra, CPC
Bruce Hupfer, MBA, MA

Staff Writers:
Carolyn Foley
Steven Ryan

Customer Service:
Tamara Jimenez

Graphic Artist:
Cathie Bleck

The Healthcare Business Letter is newsletter published by The ARSI Group to provide news, innovative ideas, practical skills and tools for physicians and their staffs.

monitoring of the gross charges per sq. ft. of office and a detailed review of each administrative cost will give them an ongoing barometer of their relative success in attaining their goal.

Performance Measures

A well-designed assessment or evaluation process consists of a carefully designed audit plan or assessment scheme that starts with a comprehensive review of the organization's overall performance. Similar to drilling for oil, the experienced consultant will systematically probe the various operational areas to identify those performance organizations, which are not acceptable. Where problems are identified, the consultant will apply a more in-depth survey (drilling deeper), to get an improved understanding of the performance problems and their root causes. This is followed by additional detailed evaluations including interviews, an audit of operating processes and procedures, and/or review of financial performance to create a detailed picture of the improvement needs.

These tools, which often take the form of needs assessment evaluations, compliance reviews, organization performance audits, and even health plan provider evaluations and checklists, help pinpoint problems in need of immediate attention. Designed to compile the information necessary to improve organization management and performance, the findings are generally presented in a priority hierarchy, enabling us to focus on first improving the most critical deficiencies in the organization's performance.

Benchmarking Against Yourself

The more effective survey evaluations offer a cost-effective alternative for gaining actionable data regarding the current state and performance of your organization. Most survey instruments are developed to provide a relative assessment of a organization's performance in comparison to others in a defined class or category. By repeatedly administering the same survey over many years, an evaluator is able to develop a performance benchmark to include various indicators of baseline, average, and exceptional performance. The more times the survey is administered, the better the evaluator understands organization performance.

Regardless of whether the survey examines the size of waiting rooms, the percentage of account receivables over 120 days, or the number of patient visits within a year, you are learning more about the effectiveness of your organization management. Effective surveys also improve your organizations' understanding of how your organization compares with others. This is knowledge you didn't have before, and knowledge is power! The more you know about your organization, the better able you are to make sound management decisions and correct deficiencies.

Selling the Survey Process

The most effective surveys scrutinize every aspect of a organization's business and care operations. Prior to embarking on a performance/management improvement activity, the physician should communicate the importance of the evaluation to each and every member of the organization. All organization staff must fully understand and "buy into" the objective of the improvement activity. They must recognize they are part of a team in an improvement initiative. This can be a complex process involving staff interviews, patient satisfaction research, data collection, analysis, compilation of reports and coordination of activities.

Moreover, when improvement initiatives are recommended, staff should have the understanding that they are an integral part of the solution. For improvement initiatives to work, the organization must efficiently and effectively perform activities as a team.

Set Goals & Objectives

Regardless of your organization's size, to be effective you need to set goals and objectives. "If you don't know where you are going, any road will get you there!' This phrase, though often quoted, still fails to be meaningful in most professionals' business organizations. The top performing organizations in healthcare, as a standard organization, routinely monitor their organization's performance and utilize this feedback in making plans and strategic decisions. Strategic organizational changes, adjustments made to assure attainment of goals and objectives, should be based upon organization data gathered over time in key organization performance areas. Assessing and evaluating your organization is essential to determining the success of your strategic organization changes.

To use an analogy, you might liken it to your organization's "report card" on areas like patient satisfaction, collection of patient co-payment or deductible at-time-of-service, or net collection percentages on third-party payor billings. These measures give you an opportunity to compare and contrast your organization's clinical performance and operational statistics against other similar provider groups to determine strategic areas of clinical or business office management.

The Benefit Analysis

Whenever a organization looks at the cost of conducting an evaluation, it should also look at the potential benefits. A performance evaluation is best viewed as an opportunity cost- if you don't conduct the evaluation you bypass the possible opportunity of cost savings, identifying new revenue possibilities, and more efficient procedures. Furthermore, evaluations come in all shapes and sizes and different flavors and colors. The organization doesn't have to pay a fortune to get a good evaluation, especially if it is able to do some of the fieldwork itself.

When you purchase any type of vehicle for transportation today, it will have a dashboard with "indicators" to inform you of important facts regarding the "state" of you vehicle. These "gauges" display current measurements like vehicle speed, engine temperature, oil pressure and the amount of fuel remaining in the tank.

The Well Traveled Road

As we have stated: "If you don't know where you are going, any road will get you there!" Now, assuming that your organization has set its goals and objectives, let's

look at the business of medicine as a journey, with many "roads" that we, as organization owners, might choose to take us to our appointed "destination." Speaking of your organization as the "chosen vehicle" for providing healthcare services to your patients, what type of vehicle would you choose to drive along this journey?

You could select any of the "standard" vehicles on the market, which are designed to simply provide basic transportation. Most of them have only a few "basic" indicators or gauges to inform you how the vehicle is performing. However, as you move up the scale into today's high performance vehicles, you generally get a significantly greater number of "gauges," including such performance features as mileage, engine revolutions per minute, and enough information to dazzle the average driver with a variety of feedback on the status of the engine and its components.

The Turtle or the Hare?

Now, comparing the driver of a Chevy Geo with the driver of an Indy 500 race car, there is a profound difference in the need for performance information. The Chevy Geo driver will never need to know the PSI (pounds per square inch) compression of each individual engine cylinder while the Indy 500 race car driver needs every technical bit of information and more. The Chevy Geo driver who needs "basic transportation" essential to achieve the goal of getting from Point A to Point B and basic information about the vehicle's performance, such as information about speed, oil pressure, engine temperature and how much fuel is in the tank. Indeed, because these needs are so basic, the information might be provided through "warning lights" to further simplify the need for information.

In contrast, for the Indy 500 race car driver, the vehicle is a central component in performing a core function of their life. For the Indy 500 car driver this vehicle is the main business and it is vitally important to carefully study every possible feedback on the performance of the vehicle. Not only does the driver pay constant attention to the performance and "current status" measures of the various gauges, a pit team also carefully studies these measures to assist the driver in identifying potential problems and performance alternatives. Getting the maximum performance from his vehicle is essential because it will impact the success of the driver's chosen profession. Gauges, computer read outs, and even onboard audio and video are employed to gain whatever information might be needed to improve performance.

Dashboard Indicators

Because your organization is the "vehicle" used to facilitate quality healthcare services to patients, you need to view yourself as the Indy 500 car driver who must constantly monitor the "state" and "performance" level of your organization. Your "vehicle" helps you to maintain your position in the business of providing healthcare services to patients. Closely monitoring its gauges will enable you to keep on the proper road to healthcare service success. Trying to operate a healthcare vehicle in today's "fast-paced" world that lacks the necessary performance feedback indicators would be as foolish as trying to win the Indy 500 with a Chevy Geo.

Where you start is probably less important than "when" you start and the sooner you start the better. Assessing the status and performance of your organization gives you the knowledge essential to evaluating how well you compare to industry averages and your competition. By measuring performance levels you identify your relative strengths and weaknesses when compared to the leaders in the marketplace. In addition, these measures provide an early warning of potential compliance or financial deficiencies, creating a risk management benefit.

Knowing where your organization currently is in relation to outside competition can assist you in identifying strategic areas for improvements. Knowing where your organization currently is in relation to your own organizations' internal measurements from last year enables your organization to effectively manage and allocate organizational resources. From these measures you can adjust financial policies, and modify investments in training and human resources.

Because routinely assessing and evaluating organization performance often leads to a multiple of new and possibly unconventional ways to increase revenue, reduce unnecessary work or improve patient service without increasing staff workload, you might ask, "How can we afford to not conduct an evaluation?" Often, once the busy organization starts to make changes in the way they perform their services, efficiency improves and the staff "finds" time to handle other issues that have been neglected. This strategic change, based on these new measurements, often has an immediate positive impact on the organization, improving patient service and customer satisfaction.

Automate and Innovate

Improving service delivery and customer service performance can create increased revenues, reduced costs, and improved patient loyalty. Examples of what can be measured are scheduling efficiency and the minimization of patient waiting time. This can be done through increased automation, modified wave scheduling, and innovative ancillary services (email consults, telephone triage systems, and collaboration with other primary care providers).

Collecting and measuring organization data gives us a snapshot of the organization. Collecting and measuring organization data over time gives us a series of snapshots and allows us to see trends. This gives us the data we need to set strategic goals for organization performance in key areas of patient service. This process should be structured to learn the details and develop cost-benefit data about each key component of organization operations. When an assessment is performed, we can better estimate the total value of the organization if it were to be placed on the market for sale. A uniform method should be used to best facilitate the documentation of "organization value," enabling annual comparisons or historical trends.

Linking Activity and Performance

After measuring, you must find and document the linkages between the best performance and the business organizations (systems, policies and procedures) that

The review process of a well-designed assessment should be much like an individual's healthcare "annual check up."

Step 1. The interview, a strategic set of probing questions asked and answered to determine current status and current challenges.

Step 2. Facts are compiled and analyzed, the history is reviewed and compared against known trends.

Step 3. An expert is consulted who has special expertise in the field to analyze the information collected and "drill down" questions are asked to identify potentially hidden problems.

Step 4. Diagnosis and recommendations are given, and any follow up procedures are performed.

Step 5. Corrective measures are taken and preventative measures are advised.

OIG has stepped up their compliance enforcement efforts. This has created tremendous urgency for healthcare organizations to assure they are in compliance. With penalties that can include devastating fines and even imprisonment, coding and compliance have become major risk management issues. A strong assessment plan should consist of training, routine internal audits, and the use of a certified procedural coder. Your compliance program must be designed to ensure not only that the organization is in full compliance with the law but also monitor the organizations and incentives created for your staff.

helped those organizations attain these performance levels. Performance measures are often defined in only financial terms. In reality, "success' can also be a measurement of improved patient satisfaction, better clinical outcomes, or reduced employee turnover and physician satisfaction. How can you determine exactly where your managers and office staff can make strategic improvements that will improve those areas of your organization most important to your patients? There are many paths to follow in organization management. Whether you take the high road or the low road, the route must support you over your entire journey. The next time the organization is surveyed or sends out a patient satisfaction survey, ask yourself, "How can we use this information to better manage the organization?" It could be the key to unlocking improved financial performance.

Tracking Your Journey

Providing quality care in an efficient manner, offering strong (measured) outcomes and substantiating a high level of quantified patient/customer satisfaction are the keys to success for the specialist. An effective management evaluation tool tracks organization efficiency and performance in relation to cost structure, percentage of collections, revenue and operating costs. The most successful organizations are not necessarily those who cut organization costs. Those who maximize their revenues are, most often, in an improved market position. Now more than ever, physicians must be able to identify the barriers to improved productivity.

We must never forget that a healthcare organization is in the business of satisfying its customers. We are truly in the "people business" with customer service quality improvement as our core concern. In today's era of managed care, it is the customer who determines the quality of care/service received. This is true whether it is the patient, the employer, or the insurance company paying the bill. Monitoring mechanisms to determine customer satisfaction scores are becoming increasingly more sophisticated. The penalty for poor service is the loss of the patients, and the revenue which goes with them. Each organization must have programs to monitor the performance of patient service, healthcare outcomes, and compliance.

The Cost of Doing Nothing

In today's environment of reduced reimbursement, increasing demands and unprecedented complexity, physicians must constantly improve their organization's performance to survive. The absence of resources available for investment has made it difficult to maximize efficiency and effectiveness within a physician's organization. Even organizations with adequate revenues soon find that the day to day realities dictated by patient flow, insurance issues, and various follow-up activities leave little time for implementing best organizations and performance improvement. We find ourselves in a squeeze between longer work hours, declining profitability, and increasing costs

For information on future **HFMA** programs, including the **Revenue Cycle Strategies** series, contact the HFMA (Healthcare Financial Management Association) at (800)252-4362, extension 2.

They also hold their **Annual National Institute** (ANI) focusing on healthcare business management strategies each year. HFMA's 2004 ANI is scheduled from June 27- July 1 in Nashville, TN at the Gaylord Opryland Resort and Convention Center. For more information, or to register, call **(800) 252-4362**, extension 2, or go to HFMA's web site at: ***www.hfma.org***.

Todd Halpin, the presenter at this HFMA program, can be reached at (800)995-0097, or by visiting his company's web site: *www.phase2consulting.com*.

James A. Muschler

Mr. Muschler, the editor of *The Healthcare Business Letter*, is actively involved with the research and development of business-related CME courses. In addition, Mr. Muschler has been widely published in both healthcare business journals and industry publications. He also currently serves on the editorial advisory board of Practice Pointers and Managed Care Strategies.

His extensive experience includes the assessment of healthcare business strategies, designing and re-engineering healthcare financial management and collection systems, in addition to customer service excellence and corporate communications strategies.