healthcare performance solutions

Sharing Best Practices Knowledge

TO MEET THE EXTRODINARY CHALLENGES YOU ARE FACING TODAY
YOU MUST DEMONSTRATE EXTRAODINARY BUSINESS PRACTICES:

Eye Chart Case Study: A practical and applied method to quantify the impact that leadership performance and cultural engagement have on overall results

As of January of 2009, we have created over 200 performance management "Eye Charts" for healthcare organizations (including a total of 6,274 leaders and managers). During the last three years of longitudinal tracking, we have observed less than 5% of "existing and tenured" front-line managers improve their overall performance from the bottom quartile (Red zone) to the top quartile (Green zone). By existing and tenured, we mean the same manager that has been appointed to the department/function for a reasonable period of time (3 years or longer).

Typical odds of improvement considering all talent levels:

- Improvement within the original quartile zone = likely 50% odds (one in two chance).
- Improvement of one quartile = somewhat unlikely 25% odds (one in four chance).
- Improvement of two quartiles = unlikely 10% odds (one in ten chance).
- Improvement of two quartiles = very unlikely < 5% odds (one in twenty chance).

We have also determined that if an **"A"** level (existing and tenured) manager is failing in the Red zone or struggling in the Orange zone (on their performance management "Eye Chart"), it is most likely that the degree of difficulty (obstacles) are high and these obstacles are most often outside of the managers span of control.

Logic dictates that if the obstacles were within the manager's control, it would only be a matter of time before they were better managed by the more talented people. This logic makes diagnosis and prescription of coaching and action planning easier and more consistent because the largest rate limiting factor is usually TIME. **"A"** level managers will act on and fix any problems within their span of control typically within one year of appointment.

Obviously, there are many, many variables that can impact overall performance and economic value of a department and an

organization. Any one factor (taken to the maximum extreme) can be extremely costly if mistakes are made or if performance (productivity) is sub-optimized.

The following example can serve as a guide for **a conservative estimate** to build the business case for the impact that leadership performance and cultural engagement have on overall financial outcomes. **Note:** We have found that it's not practical to perform detailed Activity Based Cost analysis (ABC accounting) in every engagement. Therefore, we have simplified the process and estimates for people to best calculate the overall value added (or subtracted) and economic benefit derived from departments that are high performing vs. those that are low performing.

How much of a difference can the overall workforce improvement of one quartile of performance make (for the average organization)?

It can be very significant if the service line or business unit is a high revenue generating department/function. The best – "practical and applied" estimates we have been able to illustrate for human capital productivity and economic value added is a range between a low of 7.5% and a high of 15% per quartile multiplied by the entire fully loaded cost of the workforce represented in each section.

Also, it is typical to find that the lower ½ of the "Eye Chart" (those departments performing in the Red and Orange quartiles) illustrate the following characteristics:

1. The departments tend to be "more difficult" departments/functions to manage (Higher degree of Difficulty).

2. The departments tend to have more employees (larger departments with greater spans of control are also more complex).

3. The departments usually represent a higher Revenue Generating ratio (departments that bill for revenue vs. those that are an internal overhead expense).

4. The departments usually have leaders (front line managers) that are less talented than the leaders (managers) in the top ½ of the chart (this fact is obvious).

We have also measured the following outcomes in performance that are typically experienced between the bottom quartile departments (illustrated in Red) and top quartile departments (illustrated in Green).

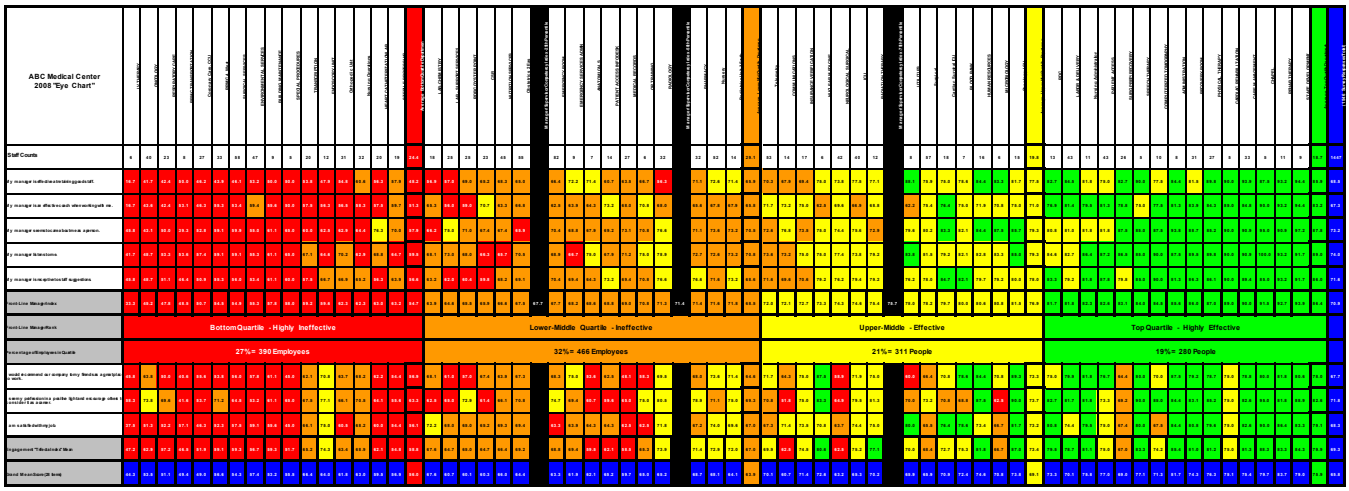
1. There is approximately three times the voluntary turnover of employees between the bottom and top quartiles.

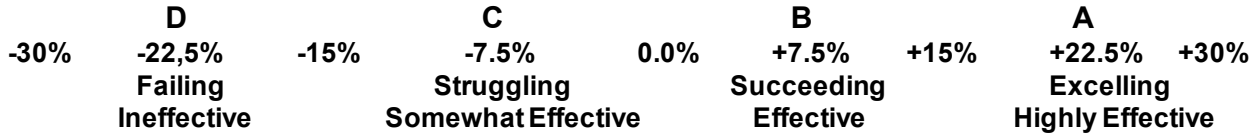
2. There is approximately 28 percentile points difference in average patient satisfaction.

3. The managers in the bottom quartile departments tend to miss hitting their budget projections compared to those in the top quartile (by 8% or more).

The Impact of Leadership Performance on Overall Results (one department at a time)

Where is productivity (value) being added or subtracted as a result of leadership and culture?





4. The bottom quartile departments (in Red) become a disproportionate time drain on senior leaders (taking up to 75% of their weekly and monthly time to manage).

Therefore, even though the following characteristics are present in virtually every organization, we have found it best to treat and calculate each department and each quartile as equal for purposes of easier comprehension and estimates of value added or subtracted overall performance. Thus, <u>the estimates are conservative</u> and allow for a sound business case basis for decision making.

For example: In the Performance Management Eye Chart represented below (an organization in the **53rd** percentile of workforce performance – aka, about average in the industry), the total range of workforce effectiveness (productivity factor) between the median department (assigned a relative value of **0.0%**) and the average top quartile (Green area) is approximately **+22.5%**. Likewise, the average range of total workforce effectiveness (productivity factor) between the median department and the average bottom quartile (red area) is **-22.5%.** The estimated overall value and economic benefit gain for a department moving from the average bottom quartile (Red) to the average top quartile (Green) is approximately **45%.**

With this organization (a real case study) we can use the following assumptions:

- A Typical Community Hospital (as a Regional Medical Center)

- 2,000 Employees total, Employee response rate on their survey = 75% or (1,500 people with good validity and reliability)
- Overall employee engagement is the 53rd percentile (approximately average)
- Net operating margin = 1.8%
- Labor expense ratio = 55% (includes labor costs and benefits)
- Gross employee turnover = 20%
- Overall inpatient satisfaction = 55th percentile
- CMS quality ranking approximately the 60th percentile

The distribution of employees (61 departments represented total) in each quartile of performance is as follows:

- Bottom quartile (Red) 27% of employees (540 people)
- Lower middle quartile (Orange) 32% of employees (640 people)
- Upper middle quartile (Yellow) 21% of employees (420 people)
- Top quartile (Green) 20% of employees (400 people)
- Revenue Generating ratio: 62.5% of departments (59 % of employees = 1,180 people) in the Red and Orange quartiles (sub optimized unhealthy cultures).
- Administrative Non Revenue Generating ratio: 55% of departments in (41% of employees = 820 people) in the Yellow and Green upper quartiles (healthy cultures).
- Each Quartile represents a range in overall workforce effectiveness (productivity factor) of between 7.5% and 15%.

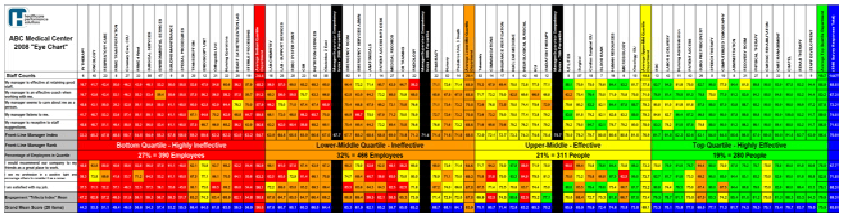
To best estimate the overall direct and indirect effectiveness improvement of just one failing department (Red to Orange) is as follows:

- Surgical unit with 40 employees
- Front line manager index score percentile rank = Bottom 2nd % tile
- Overall engagement "Trifecta index" = 19th % tile
- Grand mean percentile rank for department = 14th % tile
- Patient Satisfaction = 20th % tile
- Labor cost for the department = $2,800,000 (average cost per surgical suite FTE nationwide = $70,691.71 - rounded off to $70,000)
- Turnover for the department = 33% (13 people with an approximate direct and indirect replacement cost calculated at one times salary = $910,000)

Moving up just one quartile (from Red to Orange) could produce between 7.5% and 15% direct and indirect overall economic benefit ($210,000 to $420,000 per year).

Moving up two quartiles (from Red to Yellow) could produce between 15% and 22.5% direct and indirect overall economic benefit ($420,000 to $630,000 per year).

Direct and indirect benefits of improved leadership alignment and cultural engagement



Restoring Healthcare back to the Rewarding Calling to "Make a Difference."

The Patient Experience
- Better quality outcomes
- Improved patient safety
- Greater Patient satisfaction and loyalty

Financial Results
- Lower costs for services (Productivity)
- More services per unit of time (Efficiency)
- Top line revenue growth (market share)
- Lower labor costs (including premium pay)

Workplace Benefits
- Less employee absenteeism
- Lower employee turnover (replacement costs)
- Less overtime
- Lower recruiting costs (being a "Destination of Choice")
- Less emotional stress (quality of life – work balance)

Success Profiles Inc. Research, 1992-2009

Moving up three quartiles (from Red to Green) could produce between 22.5% and 30% direct and indirect overall economic benefit ($630,000 to $840,000 per year).

To understand how and why this is a conservative estimate, if employee turnover alone was reduced from 13 people to 8 people - 33% to 20% (to the average rate for the organization) the replacement cost savings alone would be approximately = **$350,000** ($910,000 – $560,000 assuming that the replacement cost is calculated at one times salary).

This replacement cost figure alone ($350,000) represents 12.5% of the total labor cost (without benefits). If benefits were included, we would need to add an additional cost of approximately 27% of the labor amount.

Keep in mind that this estimate doesn't even take other factors into consideration!

There are three major categories where we observe both direct and indirect benefits of improving the leadership performance and cultural engagement in every department/function (see diagram above).

The overall direct and indirect economic impact of improving all the failing departments one entire quartile is estimated as follows:

- Bottom quartile (Red) 27% of employees (540 people)
- Front line manager index score percentile rank = Bottom 8th % tile
- Overall engagement "Trifecta index" = 7th % tile
- Grand mean percentile rank for department = 9th % tile
- Labor cost for all the departments = $35,100,000 (@ $65,000 per employee)
- Turnover for all the departments = 30% (162 people with an approximate direct and indirect replacement cost calculated at one times salary = $8,000,000)

Moving up just one quartile (from Red to Orange) could produce between **7.5%** and **15%** direct and indirect overall economic benefit ($2,632,500 to $5,265,000 per year).

To understand how and why this is a conservative estimate, if employee turnover alone was reduced from 162 people to 108 people - 30% to 20% (to the average rate for the organization) the replacement cost savings alone would be approximately = **$2,600,000** ($8,000,000 – $5,400,000).

This **7.40%** figure represents the low end estimate of overall productivity improvement in total workforce costs.

Given the complexity of calculating the overall value and economic benefit of improving human capital performance, we feel that the most practical and applied method of building the business case is to incorporate a workforce productivity improvement estimate that ranges between 7.5% to 15% per quartile improved. The model has been very consistent across of healthcare organizations of all sizes.

We have also found that the benefits of an entire organization moving the equivalent of three quartiles of performance (from the 25th percentile to the 75th percentile) essentially adds 4.0% net operating margin. This is a significant overall economic benefit to consider (when just considering the finances).

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For an in-depth analysis of the subject matter discussed in this report, related case studies, and/or to review our complete service offerings, please contact us at: *Success Profiles*, *Inc*. 877-582-8884, www.successprofiles.com

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