

FALL 2009 IDN SUMMIT  
PEER-TO-PEER LEARNING EXCHANGE  
RESEARCH REPORTS

*KPIs and Balanced Scorecards*



*Final Report October 2009. Information compiled by Healthcare Business Media, Inc in cooperation with the Exchange facilitators. For any questions or comments please contact Lisa Ponssa, [lisa@idnsummit.com](mailto:lisa@idnsummit.com) or 866.530.4441 ext. 2.*

# Using the Balanced Scorecard in Supply Chain

Among the issues you may want to address are the following:

- What is the balanced scorecard and how does it relate to supply chain?
- What are the benefits of implementing a balanced scorecard in supply chain?
- How does the balanced scorecard differ from other methodologies?
- Does every supply chain organization need a balanced scorecard of some type?
- Is a balanced scorecard champion needed? Why?
- How does an organization identify its scorecard measures?
- Do standard key performance indicators (KPIs) need to be modified to meet the needs of supply chain?
- How do you involve the customer in developing KPIs?
- How is the balanced scorecard implemented?
- How can an organization determine ROI?
- What are the unique balanced scorecard needs and priorities of the healthcare environment?
- Does an organization need external support to implement balanced scorecard?
- What are the key challenges of implementing balanced scorecard? How can these roadblocks and barriers be overcome?
- What are the factors that contribute to balanced scorecard success?

## Introduction

Healthcare organizations continue to be buffeted by a perfect storm—a confluence of forces that include the economy, workforce shortages, revenue and reimbursement shortfalls, and pressures to demonstrate safety, quality, performance and cost savings. To gain control over these forces, healthcare organizations—including supply chain organizations—are implementing a variety of strategies. Writing in *The Balanced Scorecard: Translating Strategy into Action*, Robert Kaplan and David Norton of the Harvard Business School observed that organizations tend to fail not because of bad strategies that lead to inferior performance. They fail because of their inability to deploy, communicate, monitor and refine the strategies.

Many organizations are trapped in traditional financial reporting systems, which provide an indication of how an organization performed in the past, but offer no insight into how an organization will perform in the future. This is a problem since a critical element of any organization's performance management system is knowing where the organization stands in relation to where it wants to be.

Decision makers can better monitor performance if they receive accurate, timely, relevant measurement reports. As management gurus have noted, "If you can't measure it, you can't manage it." Unfortunately, organizations often fail to look at the full range of activities that result in superior performance.

To deal with this problem, Kaplan and Norton developed the balanced scorecard, a performance measurement system that considers financial measures as well as customer, business process and learning measures. Development of a balanced scorecard begins with a definition of strategy, objectives, company-wide and business unit targets and individual measures and targets.

Anything can be measured through the balanced scorecard. Moreover, when the balanced scorecard is used properly, it can generate several benefits. Among them:

- Enhanced structure
- Shared objectives
- Positive financial return
- Improved functionality
- Raised profiles for key projects
- Funding and internal support
- Project implementation and success

## Four Core Perspectives

The balanced scorecard translates an organization's strategy into four perspectives (financial, customer, business processes and learning and growth) with a balance among the following elements:

- Internal and external measures
- Objective and subjective measures
- Performance results and drivers of future results

The balanced scorecard can be described with the following categories:

### Financial

What are the economic consequences of the organization's past actions?

- Operating income

- Expenses
- Return on capital
- Profit margin
- Cash flow
- Economic value added

**Customer**

What value proposition is delivered to key customer segments?

- Patients, physicians, payers, community
- Customer satisfaction
- Customer retention
- Customer acquisition
- Market share in target segments
- Valued services

**Business Process**

What are the existing and emerging internal business processes in which the supply chain organization must excel?

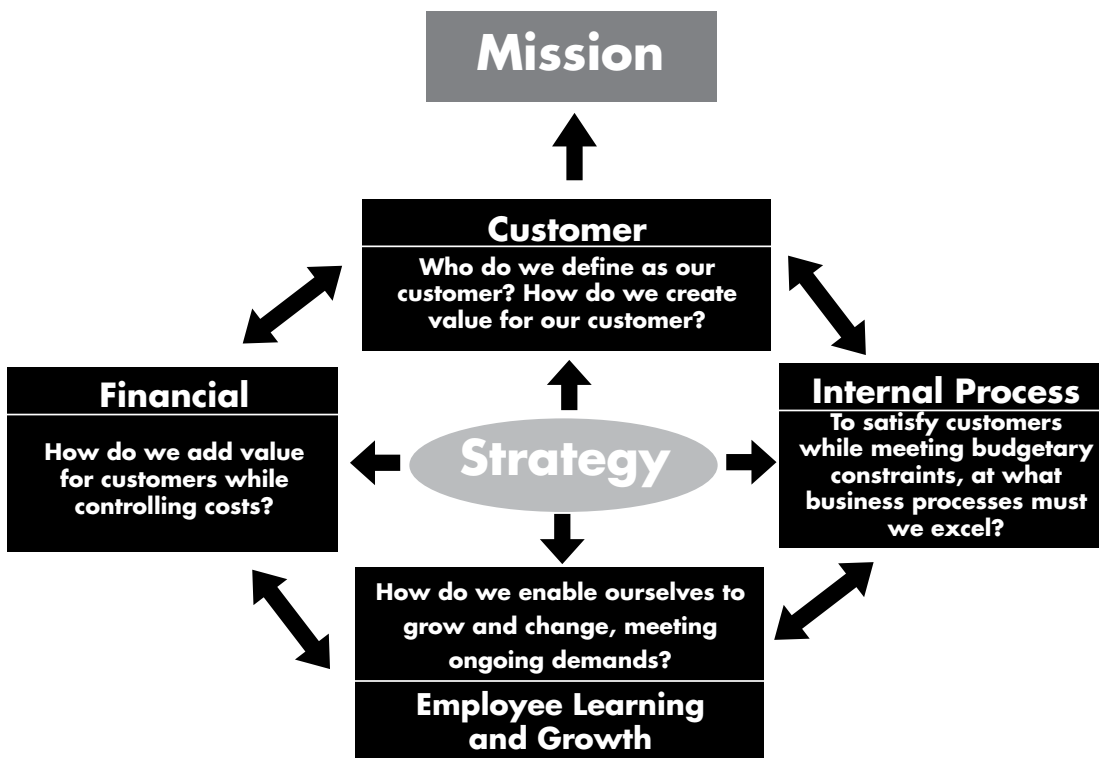
- Efficiency
- Cost
- Throughput
- Quality
- Effectiveness
- Infection rate
- Standards and guideline compliance

**Learning and Growth**

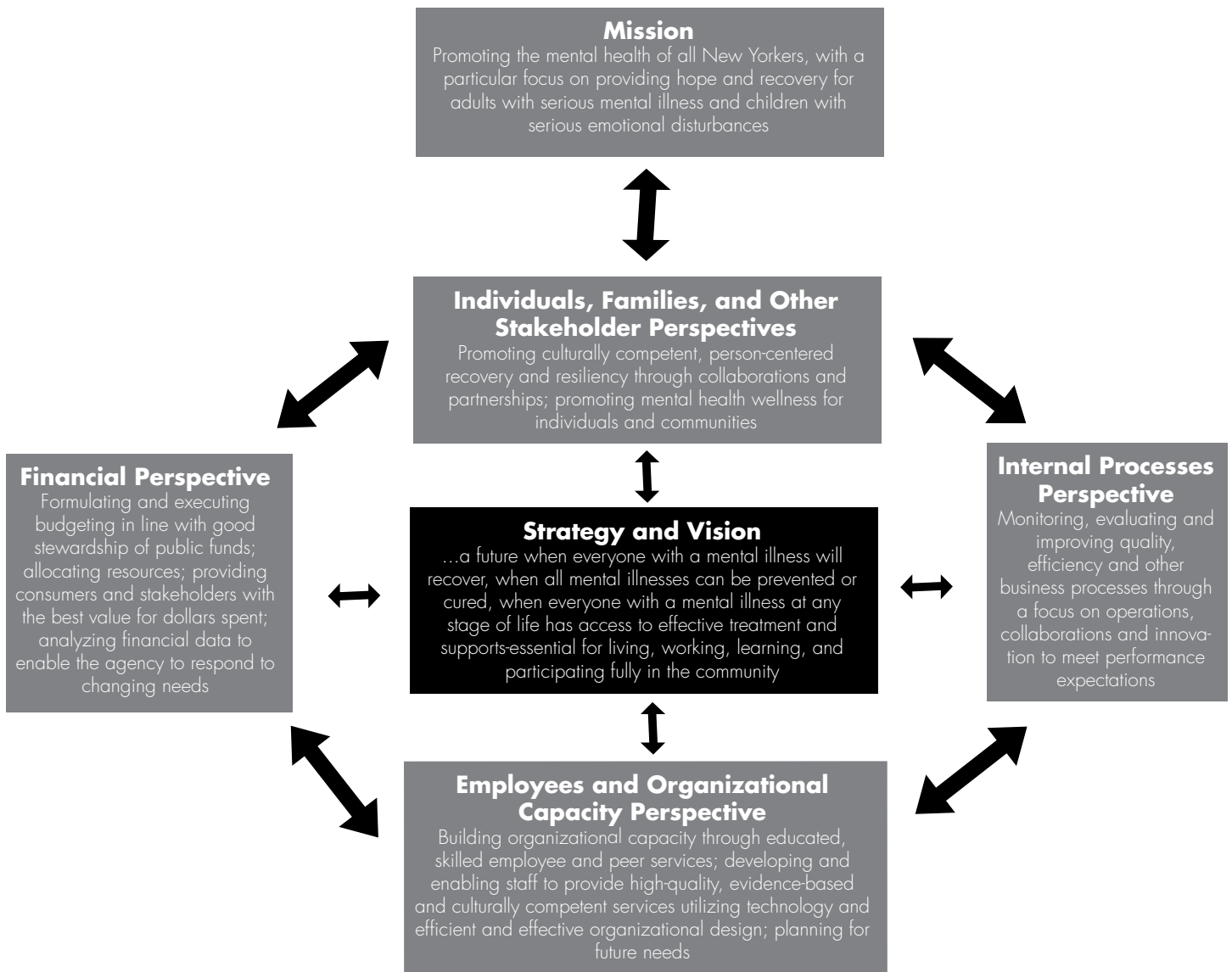
What kind of infrastructure is needed to foster long-term growth and improvement?

- Employee satisfaction
- Employee retention
- Skill sets
- Education and training
- Information technology

The relationship between the four perspectives and strategy is illustrated in the following diagram from BusinessIntelligence.com:



Some organizations choose to answer the questions noted in the diagram above by providing descriptions of each perspective, as is the case in the following diagram developed by the Office of Mental Health of the State of New York:



## Moving beyond Limitations

In the industrial age, when an organization's assets consisted of property, physical plant and equipment, a simple financial accounting system performed adequately. Now, however, the information age demands that an organization's value be calculated in terms of innovative processes, customer relationships and human resources.

Basing a performance management system on a single perspective—typically finances—has limitations. Within provider and supply chain organizations, performance measurement is dominated by financial reporting indicators, such as operating expenses, gross charges, case mix index, length of stay and inpatient and outpatient volume.

These measurements focus on past performance, and offer only a short-term view of achieving organizational objectives. Executives tend to hone in on the previous month's expense budget numbers, rather than balancing performance improvement of intangible assets: effective processes, skilled and satisfied human resources, and the value proposition needed to maximize performance across the four perspectives.

An organization achieves superior performance when it successfully synthesizes four perspectives—finances, human resources and internal processes integrated to enhance the value proposition of care delivery to patients and key stakeholders.

These measures also exist in a cause and effect relationship. Measuring and managing the learning and growth of human resources and improving the effectiveness and efficiency of internal processes leads to improved customer satisfaction and loyalty, which results in superior long-term financial performance.

Simply knowing about a missed financial indicator doesn't help the supply chain organization achieve its corporate objectives. Did the organi-

zation lose several million dollars because of missed cost objectives, revenue objectives, or both? What processes and resources are essential to improvement? Are customers dissatisfied with key features of the product, usability or support? Why?

Each question requires outcomes measurement within the balanced scorecard. And each outcome measurement must be linked—in a direct cause-and-effect relationship—to a supporting process or driver that enables goal achievement.

This outcome measurement is known as a lagging indicator because it measures what has already occurred in terms of cost declines, revenue increases or quality declines. The driver measurement is known as a leading indicator because it measures the ability to achieve performance in the future. Scorecards that connect leading and lagging measurements allow supply chain executives to take action on processes that will improve desired outcomes.

The balanced scorecard is as effective when applied to an individual line of business as when applied to a company-level business plan. A supply chain executive who wanted to design a business plan for a new service line would also need to design a scorecard to monitor and manage the performance of that business plan. Executives would need to come up with the following:

- Strategic goals
- Objectives
- Measures: parameters used to measure progress toward each objective
- Targets: specific values for measures such as 5 percent growth in net margin
- Initiatives: action programs to meet the objectives

Executives would translate goals into specific objectives within each of the four performance perspectives: financial, customer, process and learning. If visualized as a grid, financial, customer, process and learning would run along the vertical axis, while objectives, measures, targets and initiatives would run along the horizontal axis

Executives would select outcome measures to make each objective operational by answering the question, “How do we know if we have achieved this objective?” They would then assign each objective a performance driver measurement to monitor its achievability and perhaps a trend indicator to show direction as increasing or decreasing.

Measures should meet the following criteria:

- 25-30 performance indicators (Some consider this number ideal.)
- Accessible
- Relevant
- Easily understood
- Balance between leading and lagging performance indicators
- Balance between short- and long-term goals.
- No measure should outweigh or be improved at the expense of another

The Balanced Scorecard Institute recommends the following alternative process for implementing the balanced scorecard methodology:

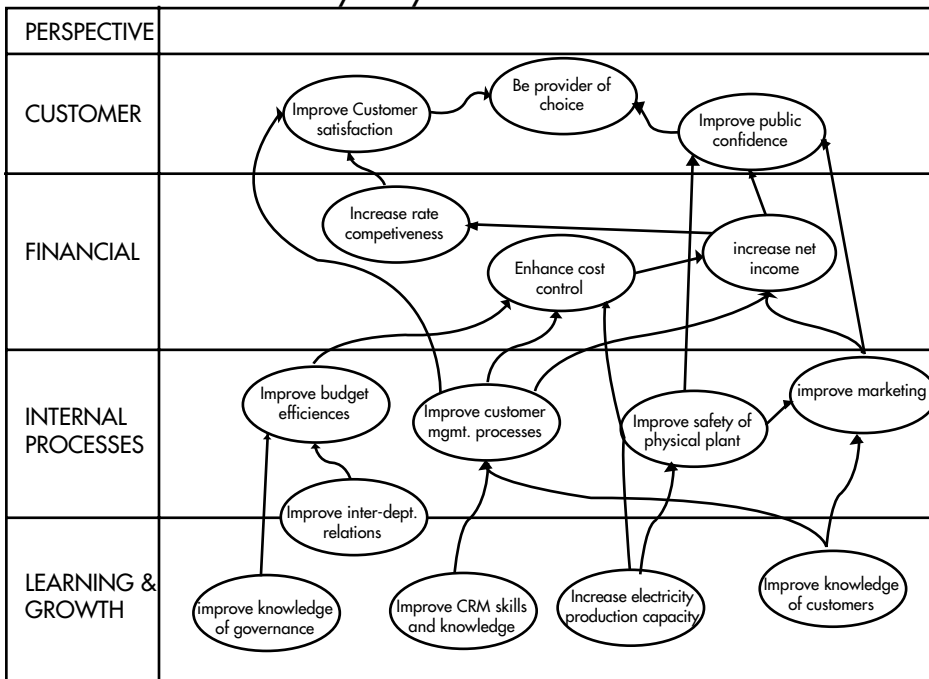
- Assess organizational structure
- Identify themes
- Define perspectives
- List strategic objectives
- Develop a strategy map
- Create performance metrics
- Identify and prioritize strategic initiatives
- Communicate the balanced scorecard throughout the organization

Another approach is suggested in the following diagram from Primerus Consulting:



A strategy map is best illustrated through the following illustration from Kaplan and Norton's *Strategy Maps: Converting Intangible Assets into Tangible Outcomes* (2004):

## Corporate Strategy Map Mayberry Utilities Commission



Developing a balanced scorecard is typically followed by a process of *performance monitoring, evaluation and improvement*. Performance monitoring maps performance measures to a business plan's strategic objectives, goals, and initiatives and then communicates performance to various constituencies or stakeholders. Performance monitoring can be either long-term and strategies or real-time and operational followed by monthly, quarterly and annual reporting.

While performance monitoring allows the supply chain organization to identify negative and positive performance events and trends, executives must conduct root cause analysis to isolate contributing factors. Ideally, the supply chain executive should be able to navigate from performance monitoring to evaluation, make knowledge based decisions and take action to improve underlying processes.

While the balanced scorecard was first viewed as a performance measurement system, executives can also use it as a management system to implement strategy. Following are several strategic uses of the balanced scorecard:

- **Clarify strategy:** Executives can grasp strategy and develop consensus because strategic objectives have been translated into quantifiable measures.
- **Communicate strategic objectives:** Executives can more effectively communicate strategy throughout the organization because the balanced scorecard translates high-level objectives into operational objectives.
- **Plan, set targets and align strategic initiatives:** Executives find it easier to develop initiatives to align programs to reach the targets set for each perspective: financial, customer, process and learning.
- **Receive strategic feedback:** Executives get feedback on whether strategy is being implemented according to plan and whether the strategy has achieved success.

### Resources

Best Practice Institute, North Palm Beach, Fla.  
<http://www.bpoinstitute.net>

Balanced Scorecard Institute  
<http://www.balancedscorecard.org>

Foundation for Performance Measurement  
<http://www.fpm.com>

Benchmarking Network  
<http://www.benchmarkingnetwork.com>

Best Practices LLC.  
<http://www.best-in-class.com>

Balanced scorecard measures that drive performance (Norton and Kaplan)  
<http://harvardbusiness.org/product/balanced-scorecard-measures-that-drive-performance/an/R0507Q-PDF-ENG>

Health care facilities balanced scorecard metrics template  
[http://www.strategy2act.com/solutions/health\\_care\\_facilities\\_excel.htm](http://www.strategy2act.com/solutions/health_care_facilities_excel.htm)

Use of the balanced scorecard in healthcare  
<http://www.ncbi.nlm.nih.gov/pubmed/12908650>

Balancing the healthcare scorecard  
[http://www.managedcaremag.com/archives/0309/0309\\_peer\\_balanced.pdf](http://www.managedcaremag.com/archives/0309/0309_peer_balanced.pdf)

Balanced scorecard  
[http://www.isixsigma.com/me/balanced\\_scorecard/](http://www.isixsigma.com/me/balanced_scorecard/)

Robert S. Kaplan and David P Norton. *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Harvard Business School Press, 2001.

### Attachment:

Below are examples of supply chain metrics/indicators for each of the four quadrants of a balanced scorecard. This information was derived from a presentation by Nick Gaich, Applesseed Healthcare Resources, at the Spring 2009 IDN Summit & Expo.

## Balanced Scorecard Exercise

- How do customers see us?
  - Fill Rate
  - Inventory: Stock Cycle Time
  - Inventory Accuracy
  - Requisitions: Receipt Cycle Time
  - Returns
  - Stock/Non-Stock Ratio
  - Customer Calls/Complaints
  - Customer Satisfaction Score
    - Supply Availability
    - Supply Accessibility
    - Staff Courtesy/Helpfulness
    - Staff Responsiveness
    - Staff Professionalism
    - Access to Information

<i>Customer Perspective</i>	<i>Financial Perspective</i>
<i>Internal Business</i>	<i>Innovation Perspective</i>

## Balanced Scorecard Exercise

- How do we look to shareholders?
  - Days Cash on Hand
  - Days Inventory on Hand
  - Return on Assets
  - Budget vs Actual Budget Results
  - Actual: PY Variance
  - Supply Cost per \_\_\_\_\_
  - Supply Cost per \_\_\_\_\_ Adjusted
  - Supply Cost Trend
  - Supply Cost Trend vs CPI
  - Total Non-Labor Cost per \_\_\_\_\_

<i>Customer Perspective</i>	<i>Financial Perspective</i>
<i>Internal Business</i>	<i>Innovation Perspective</i>

## Balanced Scorecard Exercise

- What must we excel at?
  - Purchasing Productivity
  - Purchasing Accuracy
  - Receipt Accuracy
  - Inventory Accuracy
  - Contract Compliance
  - Logistics Handling Productivity
  - On/Off Contract Purchase Ratio
  - Supply Chain Managed Item Ratio
  - Supply Chain Managed Inventory Ratio
  - Supply Chain Managed Spend Ratio
  - Quality – Errors, Defects, Rework
  - Speed, Cost, Time
  - Productivity

<i>Customer Perspective</i>	<i>Financial Perspective</i>
<i>Internal Business</i>	<i>Innovation Perspective</i>

## Balanced Scorecard Exercise

- Can we continue to improve and create value?
  - Innovations Log
  - Employee Suggestions
  - Employee Retention
  - Employee Capabilities
  - Employee Productivity
  - Continuing Education
    - Formal Education
    - Certifications
    - On-Line Classes
    - Conference Attendance
    - Book Reviews

<i>Customer Perspective</i>	<i>Financial Perspective</i>
<i>Internal Business</i>	<i>Innovation Perspective</i>

## Setting Targets

- Getting to Attainable and Realistic is the most critical component of objective setting...

...and the most difficult
- Begin with a collaborative and iterative process
- By the end of the iterations you will have established:
  - **Goal Awareness** and process understanding
  - **Role Definition** and expectation clarity
  - **Resource Availability** or limitations
  - Goal Alignment

## CONCLUSION

The Fall IDN Summit KPIs and Balanced Scorecards Peer-to-Peer Learning Exchange Lunch took place at the Gaylord Texan on Wednesday, September 23rd from 11:30 am - 12:30 pm. The session was attended by supply chain executives from various stakeholders: health systems, GPOs and suppliers. The session was facilitated by David McCombs, the Vice President of Enterprise Resource Planning/Supply Chain Operations for the Bon Secours Health System. Below, please find the edited transcripts of the discussions that took place during the exchange.

## TRANSCRIPT

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**David McCombs:** I'm going to get started. Let me explain how we're going to do this. By the way, my name is David McCombs, I'm the Vice President ERP supply chain operations for Bon Secours Health System, and I'm also on the educational advisory board that was formed to help with this meeting. In our EAB discussions was the ability to have these peer to peer interactions around some relevant topics. We thought we would provide representatives and those attending would benefit from it. Balanced score cards and KPIs, is one of my areas, so I volunteered to facilitate this session. What we thought we would do in these sessions is select a topic and then the folks from the IDN summit have created some research reports which hopefully you read beforehand and we wanted the reports to kind of open up to discussions so that we could really have, give and take about how people are dealing with challenges with the topic at hand. Let me ask this question first, how many folks have had the opportunity or had already been aware of the balance score card time set that's described in this? Have most folks around the table seen that? Okay. Because I could, you know, do 10,000 topics in here, but maybe I'll do that for a second, but I thought maybe I could start the discussion out by sharing a little bit of my story.

I became very interested in the concept when I heard it last spring at the IDN Summit. Initially, I thought that by making some major changes in the models to apply to my organization it seemed like a great opportunity to try it. So I thought I could share with you the story of my organization and how we try to apply this concept, and hopefully that will prompt the discussion that people can share what they're doing and what's working and not working. The balance score card concept is 10,000-foot level and this has led a great discussion that started last spring and maybe some of you in the room were on the panel and participated in that session.

This concept is from business school around the model of score card measurement used in various companies, and the discussion was how this could apply to health care and more specifically to the whole supply chain model, and I think a couple of the key concepts in the model that I'm familiar with is that it's built as the name implies by looking at four key perspectives of whatever the business entity is you're trying to measure success in and those perspectives are the financial outcomes such as customer perspective, process perspective, and then what they call learning and growth and innovation, so it's around having sort of a balanced process for the expectation and then not only identifying the measures that are outcomes of those, but it talks about having lagging indicators and the outcomes, but also linking those indicators to strategies and visions or vision versus strategy. And then being able to produce that and share it with kind of a whole set of groups to try to drive your input.

So that's the concept. Nothing brand new since I've mentioned my objectives and so forth, but what was new to me and very helpful to me was the issue of the different perspectives, and the health system, we're a 14 - we're a \$2,000,000,000 system with hospitals across seven states and a lot are nonviewed programs as well, and we - our supply chain in 2000 or thereabouts after a graphic period of growth of acquisitions and simulations and a whole lot of systems in this model. Our objective team, and I was actually at one of the hospitals, decided to focus on the supply chain area as a real, an area where we could really draw up the system and get a scale and so forth. We selected Lawson as our ERP, and my role is to help roll out the ERP system and take responsibility of the supply chain, and we took about three years to do that and we set a model up. And we had a semiconsolidated model.

We had a core group of supply chain staff on our files and master files, we had a core small staff of five that dealt with system level contracts, but all purchasing was performed locally. We're with the GPO Premier and our system contracts were all performed locally and the system administration, from our model, what we maintain, the central database IS system - the administration was performed locally, but we were charged with our executive management team about a year ago. We looked across all of the overhead components of the organization in which supply chain was one and the challenge was how could we increase our global sort of overhead cost which is \$200,000,000 globally, supply chain about 18,000,000 of that.

How could we increase that 20 to 30 percent and align what we have in the economy and how could we increase the performance of the organization. So after a long and hard study of that, what we are moving toward and what we are implementing is sort of the second phase of our model where we're consolidating the business margins, so we're creating one central purchasing unit, one central contracting group for the system. We consolidated management structure, system inspection, data management. We're leading a lot of the activities in physical systems to virtual teams, etc. That's one key activity.

In our case, we have many structures and we are outsourcing the support and the actual analysis specialist in our case we're using metrics actually to divide those specialists and form them locally with the idea of taking that over in a period. But with all those strategies and activities our goal is to save money and make more profit. You know, the key challenge I also thought about is how do we measure that, how do we engage all the constituents in that effort from the 180 total supply chain material staff and logistics and all the functions to particularly all our leadership and our objectives, what measuring tool or tools can we possibly develop in that sort of a model? And so in our case, we've taken this balanced score card approach, and in fact, created with those key areas I mentioned and all that strategy and objective settings GPO carry out the time lines and we have, in fact, taken

this model and have a starting point in each of the four perspectives of customer, financial, process, and learning recommendations and to find specific measures, most of which already existed in the process measures and – but a lot – the whole customer, end user, including measures as well as probably the toughest one was the learning gross and invasion phase. So we're just in the initial phases. We have completed our objectives and we created an initial working graph of the balanced score card model and we are now actually in the process, in the next month, of converting those into personal objectives. And that's one thing that I found wasn't covered in an article is how do you take those concepts and get them down to the personal level in terms of the objectives because there's so many measures it's impossible to have those objectives.

Our answer is, once we lay this all out, is to go to each of the key leadership positions and then cascade it down to the supply chain and basically say, what are the five critical job task activities you have that contribute to these objectives and these outcomes, and then of those five, what would be the expectations and what would be the expectations in your personal responsibility in these objectives. We would cascade this to everybody. We decided more appropriately to really focus on the individual objectives for each individual to contribute to. So that's our journey.

I can go into whatever level of detail you want, but the last thing I kind of just wanted to comment on, was that this has been very eye opening because I think it's forced us to even more specifically identify the end user perspective and we've gone and talked to our clinical leadership and tried to get a better understanding from their perspective are the key service issues that they are looking for. The other area as I mentioned that we were doing is our clinical analysis model and that has to link with what we're calling the transformation. We're implementing a whole set of protocols around other events and improving clinical outcomes, and so another key to sort of balanced score cards is we've set a goal that at a minimum of 50 percent of our savings initiatives are directly linked to clinical transformation and clinical outcomes and finding out measures and setting up a way to synchronize that as we go through our clinical analysis process, we're linking directly to the set of clinical leaders that are working on the care processes, and so we set up an invasion goal to, again, at a minimum of 50 percent of all of our savings to directly link to some aspect. That was sort of learning as we went through our model. We had a set of savings and hoped they'd link to the clinical or that we didn't run into some issue. So that's our story and where we are in this process. But I guess one question I would pose is are there others that have been aware of this concept who have gone down the path and tried to put them in place, and if so, any successes or challenges anyone wants to share with that effort? Anyone want to volunteer in where you are in that process?

**Participant:** I have a question, though. I looked at doing this over the years and my challenge has always been getting the data unity to turn it into your performance. Have you looked at how you can automate the information to pull forward to make it easy, do you consider that when you're setting these things?

**David:** Well, the process methods that we've selected are the typical supplies, POs and item files and vendors, percent through contracts, stock and nonstock. I mean, the Lawson or another ERP systems, all our process measures are pretty much output of the transaction data we routinely track in any case. The ones we have added, we've done a lot of work recently around the percent of charge that's linked to our charge master, not only just charge capture, but what percent of the chargeable items have we successfully fully linked to a CDM line. We're not measuring actual charge, but we're making sure that all the charges we have are at least linked.

**Participant:** That's a new one, but in our case, the item file link, so we can measure that monthly where we have our transaction data. And the other one that is not captured anywhere is speed of contract. We have some speed indicators, speed from the contract and things like that that we extract manually. So the process indicators, that's pretty much how – the systems we have in place, but the customer area, we've rated a whole new set of customer satisfaction tools, we've used survey monkey and other things to push out to end users and we've had to go back and had to identify in our processes which process indicators are most related to customer service. So like this requisition seat cycle time, things like that. But generally, what we try to do in our case is not reinvent the wheel. We go back into our existing systems and see if that indicator, you know, can get this. I'm sure there's going to be some of these that we're going to have for awhile manually or otherwise track, but that's our goal is to make them in the process.

**Participant:** We're a smaller system, only five hospitals, and our objectives are more focused around processes that assist the organization. We have a metrics loss, we've had that in place for a number of years, and we've furnished the reports and so we aggregate our hospitals and all typical methods we measure by. But some of the larger initiatives that sort of interplay with each other like in management, how do you control vendor access in your hospitals, how do you manage the influence of the vendors, especially for the items, and then create a program around that, an internal program and then going externally for the depth 11 in that area? All integrate to other programs like technology assessment or even the spring board from that, how do you evaluate a substantially equivalent technology that maybe meet two products throughout that are not newly emerging the products they are – meet to products we've never seen in our formulary before, so how do you also review them in a timely manner, either keep them formulary in breaking that off as a subset. So all of these – others are opposed on us by the hospital system, like we just opened up a new hospital this year, last month actually, and so a lot of our system efforts were going into the general management team in opening that new hospital in the supply chain, so that was a pretty big effort. This is the first time, in fact, that was the first hospital that opened up in Louisville in 25 years, so it was new for the community and certainly new for us as a hospital system. But we tend to focus on where the impacts might come relative to supply chain and entertaining three – approximately three initiatives we would undertake for the year and try to get them to evolve. I like your idea of reaching out to the clinicians and finding out what's on their plate that we can assist them with. Sometimes we think we know but we don't always know. I like that concept of reaching out to them and then getting their input to help create that. But a lot of times, the system just imposes the things on us that we have to tackle, like you initiate Lawson, we did, too, a number of years ago, so a lot of focus went into that.

It's interesting because when you present metrics to the hospital presence and their teams and you talk about supply chain opportu-

nities from your analysis teams that you don't get established, sometimes you learn of their support for certain things and sometimes they're kind of nonplus about it, it depends on what they've got on their plate at the moment, but I found that keeping those kind of activities, that's great about supply changes, but what do you want us to do about it, well, sometimes you can save a half million if you're willing to invest 800,000 piece of capital and your pay back is less than two years.

That's all well and good to point that out, those opportunities, but again, the system capital expenditures are imposed on them like they are in system departments and so when you offer that up, you know, and hope that they would prioritize that in their scheme of putting in request for cap for that year, sometimes you're at sync and sometimes you're not. The cost saving opportunities that revolve around capital may not be what the doctors want them to do, that may have a lesser pay back or maybe a robot or something. So I guess what I'm trying to say is when we set for the year, we think what might be helpful to supply chain where we need their support, but we probably don't reach out to them like you're suggesting, like what mission is critical to you and how -

**Participant:** Their eyes start glazing over when they go through numbers, so actually, I think what - I'm trying to start a dialogue, again, what are the top five things that are important to you. We're going to cover many, many things I think always knowing what's being a CEO or working with the chief medical officer, we always kind of have to keep in front of us, what are their topic issues. Hopefully, they coincide and when they're directly contrary, that is a challenge with the score card model. I mean, that's something that we're going to have to use with our senior leaders within supply chain and CFOs have expressed a lot of interest in this. The CEOs are saying, okay, this makes sense but how is this going to help me with my priorities, so I think it was in this same literature in that presentation, they recommended you go to all your key stake holders and basically ask them, what are the top three to five things that you want to make sure we measure and monitor so we're focusing on your priorities. So we're actually getting back to this model and I'm going to be visiting with each of our CEOs and ask them that question. But I think that's a kind of question you have to ask them all the time.

**Participant:** I think the score cards work. I think they're a good objective and especially when you go into contract administration, but even take it one step further before you get into contract administration. If you use this type of program, when you initiate in your contract process, you're now sending out and making these KPIs and monitoring and construct the contract and now you know the contract and what you want to achieve and what the objective should be moving forward. Too many times when we set up contracts, we don't put the criteria in and measure going forward in that contract, expectations you want to achieve, expectations and guidelines of your savings objectives, your service requirements, your qualifications on how that's going to be achieved, performance levels, whatever you want to bring to the table, and then setting up a preprogram on the back end that says this is all and we will meet the criterias we're going to view, examine, look at, see where the objective's made, and what we need to do to institute those.

I think it's good that when you put this in place when you're meeting with that vendor in the process, they know going forward that you're holding them accountable for objectives and administration, so at the end of the day, try to prevent the confusion that goes on because you're going to have a structure of how many times you're going to meet afterwards or whether they're quarterly reviews and semiannual reviews. This is what you want from the clinical person and from the vendor expectation and this is how you have to move the process going forward because everybody's on the same page and identified on the same and they know what their objectives are and some measure of performance.

Also, you have performance flaws where he's looking for incentives. Now you can say what he's doing and not doing. All that can be looked at up front because you spelled out the criteria and I think this is a proven form that actually works and everybody knows what their goals are.

**Participant:** It's interesting because I'm probably the odd man out, I'm on the vendor's side, working with supply side and procurement managers and you hit a key point. One of the things that we struggle with and it ties back to what you were saying and the gentleman over there talking about lining up objectives is you'd be surprised at how many times when I go to an organization, one division will have a set of strategic objectives and goals that are opposed to another organization's objectives, and by the time you get to procurement, which is the way are you going to go, are you going to cost savings or are you customer service or are you balancing of both. I want to hear that discussion because I find that I'm in the role of trying to advise how to balance that in order to get the KPIs in the contract so that we can be objectively and not subjectively measured because it's difficult when you go in and achieve what you believe are the operating goals for your client and you've got one vision that theirs weren't included in that and they think they're doing a horrible job because you get to address a component that you had no idea was in there, there was never a stake holder in the original process and that can be very difficult.

**Participant:** When you asked the question, if I were to go to my senior leadership team and ask them what are the top five objective initiatives although supply chain is important within our organization, I wouldn't think that our score card would interface well with the top five initiatives because I wouldn't think that supply chain would be above five in the number of 17 initiatives, it would be around market development and there may be some elements within the score card that the supply chain group would have that may go into that, but I wouldn't start our organization having some things that were on this balanced score card, although important, it can measure because when we have our strategic plan, one of them happens to be a cost saving opportunity, I wouldn't see the score card in the top five initiatives for healthcare organizations.

**Participant:** I do think that those promote, for example, I bet the top five would be the issue of clinical effectiveness and changing the clinicals, and what I found in the dialogue on that, , actually, our CMO where we started out where he said, don't you dare go talk to my clinical leaders about saving on supplies because they're going to totally react. I said, wait a minute, what if through the process of the best supply during the entire life cycle we achieve, you all agree on that and we'll go and get you the best contract price for that and work with that vendor around the contract performance to make sure they deliver, so that doesn't have to be an opposition. But if we're going out to the CEO and saying, save me 15 percent in the cost and whatever, we're out

there driving contracts, but it's not for the right product, then we're going to have a train wreck. So I found that 18 even though the clinical effectiveness would be a supply issue, we so impact it and are so impacted by it we at least have the dialogue and then agreeing, well, how do we measure it puts us on the same playing field, whereas in the past, we couldn't discover that and we're signing the contract and saying what are you doing. I agree with you that it wouldn't necessarily show up explicitly, but indirectly, it probably does.

**Participant:** I have to agree with the gentleman over here. As we look at organizations, and I was in full array of performance measurements in front of executives and bottom line and then wanting to know what the costs were and that's the main focus, and I think one of the challenges we have that we all said that we have cost savings that we measure on a continuance basis, we validate that cost saving on a continuance basis, we put it in front and they look at the bottom line of cost and they say, it hasn't moved, and I don't know if any of you are challenged with this, I'm sure you are, but when it hasn't moved, what we're not capturing on a KPI is there's all the noise out there associated with this and that noise are things that you can measure the retention, you can measure your cost savings from previous contracts, you can validate that, what about all the incoming cost that you're not capturing and that's the noise surrounding that bottom line figure. And so I'm challenged continuously trying to explain that cost for EPD when I save 5 or \$10,000,000. Do any of you have a way of capturing that noise or the new product movement, the new product that makes the products that are coming in the organization and affecting them.

**Participant:** We're not there yet in many respects, we're at the fundamental level of creating baseline processes. We have the new product and new production and at that gate is where we're finding the most effective way to find and we may not be able to manage or control, but we can at least get those that help us control those things. We still have some areas, as I'm sure every one else does, but every product that comes in is a full blown review. Is the technique now different because of this new product, how, so we don't just say a pen for a pen, we actually ask more questions around its use, is it the same, is the procedure challenging and then letting that affect as far as making sure there's staff education and implementation linked to the CEM, all those different elements, so that's where we found the most value really getting tied to our brain on the product.

**Participant:** Don't you feel that processes only capturing 10, 20 percent of the total noise, that's affecting this?

**Participant:** We still have those to work around the processes, but that's where we're also getting in a position to leverage more pressure and looking at people who have gotten things on assignment and found a very good job of getting with the vendors and saying, you did not come into purchasing because if they're not going to follow the processes, we're going to get them on one side or the other relative to make sure that we know what's coming in. If they're coming in on a demo or trying to be introduced, we also link this back up with the department chairman who are helping back us up. You're right, we've got to look at petty cash requests all the way to those who are bringing truck stock into the back door.

**Participant:** Where we're seeing some of the increase is just in the mission of procedures, types of procedures although in the cardiac, we've got to approve a vendor for a stent or a price, the mix of patients coming in with levels that drive up costs, and so I agree that there is a static in the numbers and I do think that, you know, some of these things you talk about with the balance score card, some things about the safety and clinical effectiveness are costing the organization more and may improve clinical outcomes, but if you look at our score card, when you look at a cost or some other measure, your overall cost is going to look like it's going up if you know you have saved the \$5,000,000 that you've referred to in line item pricing and there are factors out there impacting what a supply chain looks like in your organization.

**Participant:** But that is the 30-foot level, how do you capture what you just said, how does any organization capture? This part when we're talking about the KPI and the score card, it's really the part of the initiative if you're going back to their view on contract administration. And that's what I was speaking earlier. But you really have to start from objective when a product comes in, you're - if you're going back to the basic strategic source which all of this falls into, it's your initiation process. You take from the beginning of the procurement section of doing that clinical discovery of understanding what the product, how the product is going to be used for the service, identifying the issues that you're trying to understand the objective, how it's going to be used as well as understanding the players, best use of that product, so if you're dealing with something like cardiac rhythm, you're going to understand this is the baseline products, this is what you're starting with and this is when you have any new additions where you make dramatic changes or incremental changes or a brand new identifying product. So you have to start with the product initiative and say this is our goal and then you identify all the steps that were involved with that particular product. So that needs to be done up front before you even start the bid process. Identify your issues. Develop your objectives, what typically goes on. So understand the dynamics as it relates to those products or how that market industry works. So if there's new changes coming out, how can you associate and understanding benchmarks so we can track those indicating new products loss, new way of doing it whether you're going to do buys on those particular products, whether they have some special deals you're going to do, waste that's not identified. All of those are areas that impact your bottom line that we're not capturing. If you don't identify this is how it works, these are the criterias you're looking at, these are the adjustments, these are particular issues that could impact that, you're not going to be in a position later to justify your process. So with having that and identify in doing all that on the capturing up front, stat, you now would be in a position later to identify and be able to document that noise and say what's this and what's happened and what's your true savings, otherwise, it's hard to - because you never establish the benchmark going forth.

**Participant:** Those are excellent processes, but again, you have that CFO who doesn't care about those processes. He wants a measurement.

**Participant:** Let me add to that.

**Participant:** Let me just mention one measurement that I've used, a nonfile purchase. Is that something that you can somehow turn into a piece of that pie that is now - contribute to you being able to show that underlying figure, and I'm sorry, I'm not just - those are great things, and we can get off the subject if y'all would like, but I'm trying to answer the question.

**Participant:** Well, I think, if I may –

**Participant:** How do I measure it?

**Participant:** Well, the only organizations that I've seen that have been successful in actually doing what we're talking about here I think is that final step when you negotiate a new contract, you put a value analysis process in place where you change products. Really, the only way to measure that is go back to the finance side and say, we're projecting over the next 12 months and we're going to save \$100,000 in cardiology, we're going to save \$200,000 in radiology. You need to take that money out of the budget because if you don't, they're going to spend it on something else and then it gets to the bottom line, your bottom line's going to look the same this year as it did the year before. The only organizations I've seen that you're asking for is those that have been willing to convince the finance people to move it out of the budget. If they want to put it somewhere else and allow them to spend it on new products and new equipment, that's fine, but it's got to come out of that supply and expense budget or whatever that portion is.

**Participant:** Agreed. Every product that will come through is looking at not only utilization history, but expense history. If you say cardiology versus if you get something across a myriad of areas, but we – that's absolutely key is being able to link that back to a budget and letting them modify even at that point in time to say it's going to be effective January 1st. The budget office can impact their budgets January through June, whatever that may be so that they do, in fact, link the expectation to their actual budget and that does drive those managers and directors in that area to know that, all right, I know this is going to come, so you're getting them sort of at the table in follow up, not only in finance, but in follow up to make sure that those happen, because your measure is if they budget or not.

**Participant:** It's not just holding the supply chain folks accountable, it's holding the supply chain and using the department accountable for implementing the savings that 25 you've agreed.

**Participant:** It ties back to the operational from a consultant standpoint, when you're bringing in those consultants everyone's going to be viewed on your goals and accomplishments. If you don't agree to the process and how we're going to track it, cost, what is the cost avoidance, what is the cost savings, identify the opportunity, what's new, all of that has to be identified up front. The key is taking it out of the budget from day one. When that is all agreed upon, this is how we're going to measure it, because everything else becomes useless. If you don't have a fine objective, a way of evaluating and putting back in the process, it really doesn't have the same effect when it's tied to financial when you move that money and this is what you're looking at. Those maps become very important on how you move forward because everything is agreed upon, you sit down and do the cost. Whether that's cost savings, looking at processes, looking at how the product is brought in, stored, used, received, who was involved in the handling and distributing that service, everything has to be objective and then at the back end when you're sitting there, it has to be cost.

I think any of these cost analysis that are done are done in a snapshot in time, so you're assuming you're going to do 10 ICPs last year, and that's how you base your cost savings analysis, and this year, even if you take the money out of the budget and you do 140 CRTs that weren't budgeted for, your supply – your cost per EPD or APD is going to look extraordinarily high this year and you're missing the side of the equation that, hey, you had an area that said we're going to go and try to increase the number of CRTs we had planned, and so there's got to be a way within that balance score card to identify those program or area or shift in the type of cases that were done that are driving the cost and looking then at the contribution margin side of it and so linking that problematic side back to the supply chain because if you're looking at them separately, you're not going to get a clear picture and have some static in the line, and if the measure of supply chain whether you're doing a good job or not, if at the end of the day, you cost more for EPD this year than it did last year, you're doing a lousy job, that's not an accurate picture.

**Participant:** You're absolutely right. Usually, set up these criteria, it's based upon this is your case mix, this is what you're planning to do moving forward, and and this is the cost per procedure for each one of those attentive devices, so for this particular device, this is the cost assigned to that and then if changes for bells and whistles, when you sit down and do that discovery process, you know that there's going to be three new products coming out this year, what percentage should you estimate based upon prior past history that have moved towards this new product and those type of documentation, you're going to allow so much cost associated with those new products and where you think we hold the line. And every time you go out, because a lot of consultants, when they do that criteria, they're set up when they go in and they negotiate, they're getting a price up front for their initial performance, a price when they bring the closing savings, and then they want to be balanced out that says, here's my cost if we meet our objective a year later, so they can come back and give us an identified performance level they met and they've kept the cost down because you're being rated on what you've taken out the cost, but the harder part is where did you go, did you maintain that, did you keep it from going back up, that creep that you can't control, and the only way as a consultant you have to do that up front work and establish a benchmark, set the criteria, this is where the balance is, and if things change, we have to be incentive, because new emissions, new driving, all that's going to drive change, and you don't want to be viewed as not being at the top of your game because change has happened that you didn't plan for.

**Participant:** A lot of times, we end up in the supply chain getting back to the end of the deal or I was at an organization where they start neuroscience and brought in all these surgeons and they promised them you can have whatever you want, okay, what do you need, and so you have these analysis teams and pretty soon, you know, if you fly the Southwest Airlines, they have 737s, right, it's like the pilot come in and said, I need an air bus and now you got this deal with bogus and we allow that to happen all the time. And so that's part of what you said, get up and go to these senior people out developing these programs and say, don't do that. You need to tell them, well, get what they need, but if we're using a certain mechanical system, then they need to be part of the process to convince everyone to standardize. If there's a better one, we ought to change to the better one, and we

kind of get the – and I think that's where you have to look at the stream, all the way up to way up, as you said, all the way out to the reimbursement people and I think we tend to just look at our little piece of the pie and we got the analysis team and I'll get a contract and then go and see \$50,000 a month, where is this stuff going at because supply chain's not involved with it. It's kind of that whole continuum and set up the 29

metrics for that.

**Participant:** And that's a large piece that you're referring to. Inflation every year that offsets that. We have where the technologies are coming in but when you bring sciences that are bringing in money developing that thing, a lot of that's going to bring in those big guns, they're getting brain stents or things like that that are suddenly coming into our system and they're not going through any process because there's been a commitment made and they'll get these guys to get what they want because they're going to be at the top of their game and known for neuroscience, so supply chain can try to advance physicians coming on board so we know what their requirements are and go to them and say, can you use what's on our formulary, and if not, what are your needs versus the needs of our physicians who have been practicing here all along that have been done successfully. There have been times where we've been able to get ahead of the curve and do that. Normally, the system CEO has already made this commitment and it's caged by doors. We are promising guys to get what they need, so deal with it after it gets here. Well, that's like closing the gate of the horse that's out of the barn. So you're going to run into that. That's not going to change, unless your system's different than ours, but – I'm sorry?

**Participant:** Well, the cost, it's like you're making these deals, , giving people blank checks and you've opened the gate and you're asking where the horses were.

And a good case in point is the robots that are out there. And they have been proven that people are no longer leaving the state of Kentucky because these robots are doing such a precise job. So we also will sacrifice number one the patient's safety and quality and then cost in that order and we tend to look at things like that, but we know that the impact of those disruptive technologies are really going to slam supply chain and that's okay in certain cases. It's the technologies that we're a little uncertain of like the vascular stuff where you grow device after device at doing surgery and sometimes multiple devices when the first twice fails that it's a little more difficult to get your arms around and then down to the detailed level of cost per procedure by physician and find out who's your worst performer and what are they doing when they get in there and say I've got the most difficult cases. I'm turning in the kitchen sink on this patient, I think you need to align yourself and say, let's take Dr. Jones aside and say, what are you doing here. You just spent \$50,000 on this patient where your colleagues 31

for similar patients are spending maybe 15, what's going on.

**David:** It's 12:30, why don't we have a last word and then I'll sum up a couple of comments.

**Participant:** Recruiting physicians and getting them in line with their standards, what we do is provide our recruiters with a list of things that were standardized and they present the physicians coming in with an interview and the management meeting with – we get about 15 minutes of their time to review that and have them identify what they're going to have a problem living with and then we'll try to identify any additional cost to – for what they might need and include that in the decision to recruit which physician or not so you have a picture of what the whole cost would be and that's worked out pretty well.

**David:** To summarize, what I've heard around the balanced score card concept is the key balance issue is this issue of how do we track in any sort of metric, the impact of all these things with the cost and in the balanced score card, beyond kind of these components, how to address that issue so that the senior operations manager would better understand whether the drivers of that cost and most importantly, we have to put in front of you what can we do about them, here are the specific strategies. And the other thing I think clearly, it's got to start with the end of the process to be built in, hard wired in. I guess my other conclusion is probably our next spring or next session, we ought to have something just on your question, how – what are the successes in being able to track, identify, and explain, and give actual recommendations on dealing with cost per day kind of measures. So it sounds like that would be a good topic to bring to the table in the future, what successes people are having. So I'll take that back to the advisory board.

**Participant:** Any score card, it's hard to pick one measure, and even two, because even on the cost per day, there's so much behind that that it's a good start, but it doesn't tell the whole story. So it's with any indicator, it doesn't say all the story, but it gives you a good indication or perhaps a direction to start with. But I think that's the downfall of trying to look at any one indicator that really doesn't help you tell the full story, so I think it's about what in addition to that indicator can help you tell a more full story as far as the impact of your contract negotiations or what have you.

**Participant:** I would submit that we have a lot of indicators, for example, the indicator, personally, I think it's outdated. Let's make the assumption I contract with everything, I control the front end, I don't control the number of days a patient's in the bed, additionally, even if I have a new technology that's coming in at the same cost, we all know that new technology tends to shorten your stays, so now something that was a three-day stay is done outpatient. So again, we're shooting ourselves in our foot if we continue to use the same outdated measures without adjusting something to accommodate to the number of days. And to be facetious, we could go around the nurses and say, don't discharge, and your CEO and CFOs are going, take them out of the bed, so we've got a metric that's opposed.

**David:** Thank you all for participating. Again, this will be a new topic next time, I guarantee you.



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