How to Increase Board Engagement in Quality and Finance

BY JOSEPH J. FIFER, FHFMA, CPA, HEALTHCARE FINANCIAL MANAGEMENT ASSOCIATION

Hospital boards of directors play a critical role at the intersection of finance and quality as they oversee their organizations' efforts to improve value. Hospital boards set the direction for their organizations from the top down.

According to a study conducted by The Governance Institute, active participation in quality oversight by hospital boards is linked with performance excellence on nationally recognized quality measures.[1] In turn, higher quality performance and active board oversight are linked to the existence of a board quality committee.

Most hospital boards still focus more on finance than quality, however. A survey published in *Health Affairs* found that hospital boards in the U.K. were far more focused on quality and safety than U.S. hospital boards. Nearly three-quarters (72 percent) of 132 board chairs in the U.K. considered patient safety and clinical effectiveness the most important topic for board oversight, and nearly all (98 percent) of the boards of English hospitals discussed quality performance at every meeting. In contrast, only 31 percent of 722 U.S. board chairs considered patient safety or clinical effectiveness to be a top priority for oversight and only 68 percent of U.S. hospitals reviewed quality and safety issues regularly.[2]

The Board Perspective on Quality and Finance

The board perspective on quality is invaluable for a number of reasons. Directors are part of the communities they serve and therefore bring the patients' views on quality and safety to the boardroom. Hospital executives may sometimes feel that in the day-to-day pressure of attaining regulatory, financial, and national quality standards, they lose track of the issues that are important to patients. Board members can restore the patient's voice to leadership discussions.

While board members as a group represent the overall community, there is also a subset of board members who represent the business community and therefore can bring disciplined quality improvement ideas to the table. For example, those who have a manufacturing background can bring Six Sigma and other management skills and assets into the conversation. As employers and representatives of other sectors of the local economy, board members can share the value lessons they learned from outside the healthcare industry.

So in that context, how can healthcare organizations help board members—and especially those on the quality and finance committees—focus effectively on quality, and in particular on the sweet spot where quality and finance intersect?

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Following are some overall strategies for involving board members in quality oversight, improving communication and cooperation between the board finance and quality committees, and using quality and finance metrics/dashboards to evaluate and monitor performance improvement. Specific examples in this special section come from Spectrum Health in Grand Rapids, MI, a not-for-profit health system with community hospitals throughout the state, where I served as vice president of hospital finance for 11 years, until 2012. Spectrum Health is the largest provider of acute-care services in west Michigan.

Increasing Board Engagement in Quality

The first step for the board in effectively addressing value (i.e., quality vs. cost) is to become more engaged in quality oversight. Highly quality-engaged boards are educated about quality, work closely with executives who are also quality champions, and focus on specific quality-related activities. In addition, quality-engaged boards learn from experience that providing higher-quality care is, more often than not, *less* expensive.

Education

To develop a board that is equally well versed in both finance and quality topics, Spectrum Health offers board members a heavy dose of education in quality and safety principles, including two-day retreats where the entire agenda focuses on quality. Board members also join quality and safety teams, where they present the perspective of both board member and patient while gaining insight into the complexities of healthcare delivery. A side benefit of this approach is accelerated team performance.

Special efforts are made to help board members understand the potential of targeted quality improvement projects to reduce costs while improving quality. Toward this end, focused projects at Spectrum Health have reinforced the cost savings achievable through quality improvement. For example, as part of a system-wide effort to improve efficiency by reengineering high-volume processes, Spectrum Health evaluated the results of process changes to reduce the time from arrival in the emergency department to balloon catheterization for patients with acute myocardial infarction. By increasing the percentage of patients who were catheterized within 90 minutes of arrival from

1 "How Hospital Governing Boards Enhance Quality Oversight—A Research Update," *BoardRoom Press*, The Governance Institute, October 2009.

2 Ashish K. Jha and Arnold M. Epstein, "A Survey of Board Chairs of English Hospitals Show Greater Attention to Quality of Care Than Among Their U.S. Counterparts," *Health Affairs*, Vol. 32, No. 4, April 2013, pp. 677–685.

37 percent to 97 percent, these changes decreased the incidence of complications, readmissions within 30 days, and length of stay. The improvement in these quality metrics resulted in a savings of $1.37 million.[3]

An important issue for board members to appreciate is the financial effect of variation in physician practice. Board members may not be aware that physicians' practice patterns account for up to 80 percent of a hospital's resource utilization. Reducing variation in practice patterns therefore can significantly cut costs. A study of surgical practice patterns at Spectrum Health found that the use of blood products by orthopedic surgeons during total joint replacement varied from 9.7 percent to 82.5 percent. After a quality improvement effort, average use of blood products during joint replacement dropped from 31 percent to 13.5 percent, and surgical costs decreased by hundreds of thousands of dollars.[4]

The Influence of Quality Champions

Commitment to quality is contagious. Both the CEO and CFO need to be quality champions. The CEO must ensure that quality goals are embedded in the organization's strategic and operational plans and that incentives (including incentive compensation programs and performance reviews) are aligned to support and promote the goals of the quality program. Ultimately, it is the CEO's responsibility to ensure that quality is included on the agenda in board and executive team meetings. Lack of support from the leader, no matter how subtle, sends a powerful message to the entire organization that quality is not a priority.

It is well recognized in hospitals today that cost reduction as well as overall financial growth depend on quality and safety. The CFO, in particular, needs to be a strong advocate for quality and safety improvement and display leadership in quality efforts. The CFO should partner with the chief medical and chief quality officers to approach projects from both the quality and the cost perspectives. This kind of partnership can put quality improvement on a fast track and lead to significant cost savings. At Spectrum Health, for example, the fusion of the three disciplines on quality improvement projects saved $30 million over a three-year period by decreasing the incidence of complications in 26 high-volume diagnosis-related groups.[5]

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Also, CFOs are in a position to be instrumental in helping their chief quality officer (CQO) peers establish or further develop a board quality committee that is both functional and highly effective. Taking the lessons learned from the board finance committee, the CFO can help the CQO design an effective committee structure, membership, and agendas.

In addition to ensuring budget support for quality staff, quality- and cost-reporting systems, and decision support, the CFO should support physician involvement in quality initiatives. The CFO and CQO should enable board subcommittees on quality and finance to work effectively together by providing education on the principles of healthcare quality and safety and their influence on financial performance. Both the CFO and the CQO should be members of board-level finance and quality committees so they can guide the review of data and discussion of value-related projects.

High-Impact Quality Activities

A study published by The Governance Institute in 2009 showed that performance excellence on measures related to quality was associated with six specific board activities:

- **Set quality goals at the theoretical ideal.** For example, the state of Michigan established an initiative to address infections in central line catheters, which are so common in intensive care units they were, until recently, considered inevitable. Michigan's experience with central line infections demonstrates that aiming high and changing the organizational culture around quality makes it possible to reset the benchmark on quality goals. It also shows that by pushing their organizations to aim high, board members can turn isolated quality efforts into sustainable cultural changes that drive value.
- **Require public reporting of quality performance.** Studies suggest that healthcare providers tend to step up their level of engagement in activities to improve quality when performance data are made public.[6] By making sure healthcare performance measures are reported publicly, board members can set the stage for continuous improvement.
- **Review quality performance at least quarterly, using tools such as dashboards.** A proliferation of quality metrics in use today makes it challenging for management to measure to the metrics, let alone for boards to oversee their efforts. HFMA research conducted with purchasers, payers, and provider organizations revealed general dissatisfaction with value metrics in use today, including an over-emphasis on processes rather than outcomes, the inconsistency and proliferation of metrics, and the lack of usefulness of performance data to

3 John Byrnes and Joe Fifer, "Case Study—Process and Structure for Quality and Cost Improvement," *Physician Executive Journal*, March/April 2010, p. 42.

4 John Byrnes and Joe Fifer, "A Guide to Highly Effective Quality Programs," *hfm*, January 2010, p. 86.

5 John Byrnes and Joe Fifer, "Moving Quality and Cost to the Top of the Hospital Agenda," *hfm*, August 2010, p. 82.

6 *Public Reporting as a Quality Improvement Strategy*, Agency for Healthcare Quality and Research, July 26, 2012. Available at http://1.usa.gov/1ePwHpG.

purchasers. Performance metrics need to be carefully defined and presented clearly to make them understandable and to maximize use of the board members' limited review time. (See the section below entitled Using Dashboards as a Quality Engagement Tool.)

- **Require that new clinical programs meet quality performance goals.** Launching a new clinical program or service line offers an opportunity to establish quality expectations at the outset. High-profile launches that serve as quality exemplars can spur improvement across the entire organization.
- **Devote significant time to quality issues at board meetings.** The best patient care outcomes are associated with boards that spend at least 25 percent of their time on quality issues and that review formal quality performance measurement reports.[7]
- **Work with medical staff and management to set the agenda for the board's discussion of quality.** The CQO, usually a physician executive, is the most high-profile clinical quality champion. He or she acts as a liaison between the board and medical staff. Through the CQO, board members can have frequent discussions with the medical staff on issues related to quality, safety, and finance.

Using Dashboards as a Quality Engagement Tool

In the publication *Protecting 5 Million Lives from Harm*, the Institute for Healthcare Improvement (IHI) called on hospital boards to:

- Set aims by making a commitment to achieve measurable quality improvement by establishing clear improvement goals for the facility or healthcare system.
- Review data that tracks progress toward improvement as the first agenda item at every board meeting.
- Establish and monitor organization- or system-level metrics, including a small group of carefully selected composite measures that are continually updated, transparent throughout the organization, and available to the public.
- Change the environment, policies, and organizational culture to ensure that

Exhibit 1. Sample Strategic Quality and Safety Plan Dashboard

Focus Area	Goal	Five-Year Target	Fiscal-Year Target	Accountable Executive
Clinical Improvement				
	Maintain core measures in top 10 percentile nationally.	100%	+90%	CMO, CQO, CNO
	Implement evidence-based care in high-volume, high-cost conditions (representing >50 percent of inpatient volume).	20 high-volume, high-cost conditions	Five high-volume, high-cost conditions	CMO, CQO, CNO
	Decrease complications in high-volume, high-cost conditions.	20%	5%	CMO, CQO, CNO
	Decrease cost of treatment for high-volume, high-cost conditions.	5%	2%	CMO, CQO, CNO
Safety				
	Create a culture of safety and high reliability by decreasing the rate of serious safety events (events causing harm).	0.20	0.50	CMO, CQO, CNO
	Improve medication safety.	100%	85%	VP Pharmacy
		Implement computerized provider order entry and bar code administration for medications.	Conduct Institute for Safe Medication Practices survey and correct all deficiencies.	VP Pharmacy
Patient Satisfaction				
	Maintain top satisfaction scores with patients, staff, and physicians.	+90%	90%	CMO, CQO, CNO
	Increase market share as a result of improved satisfaction.	2%	0.5%	CEO, CFO
Operational Improvement				
	Reengineer high-volume processes to improve efficiency.	20%	5%	CEO, CFO, CQO, CMO, CNO
	Reduce errors as a result of reengineering high-volume processes.	50%	15%	CEO, CFO, CQO, CMO, CNO
	Achieve cost savings as a result of reengineering high-volume processes.	$1 million	$250,000	CEO, CFO

Note: This sample Strategic Quality and Safety Plan Dashboard categorizes strategic planning initiatives by the area that is being targeted for improvement, sets goals that can be measured consistently in and across departments, establishes long- and short-term targets, and assigns executive responsibility for performance improvement.

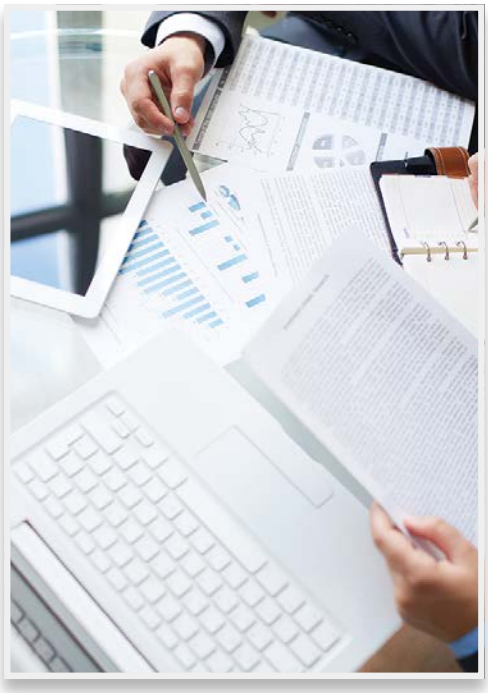
Source: John Byrnes and Joe Fifer, "Moving Quality and Cost to the Top of the Hospital Agenda," *hfm*, August 2010, p. 66.

7 5 Million Lives Campaign, *Getting Started Kit: Governance Leadership "Boards on Board" How-to Guide*, Institute for Healthcare Improvement, 2008. Available at www.ihi.org.

patients and their families, staff, and physicians are treated respectfully and protected from harm.
- Establish executive accountability for achieving clear performance improvement targets.

Simple and straightforward analytical tools, such as dashboards, are essential for boards to accomplish each of these activities. Dashboards typically report 12 months of performance, and they are trended over time to reveal the effect of improvement efforts on each of the measures they present.

The Strategic Quality and Safety Plan Dashboard (see **Exhibit 1** on the previous page), for example, provides for the hospital board a list of the specific performance improvement aims for the organization that will be updated regularly and released widely. The dashboard allows the board to assess environmental and cultural change by categorizing these aims in four focus areas: clinical improvement, safety, operational improvement, and patient satisfaction. The dashboard includes goal statements that are written clearly and concisely and in measurable terms so board members can understand the data they will review at each board meeting. The dashboard also assigns responsibility for each goal to one or more executives to make the line of accountability clear.



The Board and Executive Quality Dashboard (see **Exhibit 2**) presents composite measures that provide a picture of performance improvement across the organization or system. These composites represent data items that have been gathered from detailed frontline performance improvement dashboards throughout the organization. A single composite measure can include as many as 40 single measures. The Appropriate Care Score, for example, encompasses all Centers for Medicare & Medicaid Services (CMS) core measures.

This dashboard includes benchmarks so boards can compare their organization's performance against national standards of performance. In the section on safety, the dashboard lists Agency for Healthcare Research and Quality (AHRQ) Patient Safety Measures as a composite measure and flags Patient Safety Indicators (PSIs) that exceed AHRQ benchmarks so the board can determine which PSIs are being targeted for improvement by the organization. The Serious Safety Event Rate (SSER) calculates the rate of events that result in serious harm to patients over the period of a year and compares it against the event rate in nationally ranked best-practice hospitals.

The Board and Executive Quality Dashboard was designed to reduce the number of targets and metrics that must be reviewed by executives and board members but still keep leaders fully informed about the quality and safety measures that could threaten financial or market performance in addition to clinical performance. It carves out areas of particular concern for executives and boards, including readmission rates and pay-for-performance scores and highlights specific aspects of performance. The section on pay-for-performance, for example, illustrates the dollar-amount difference between full and partial compliance with health plan requirements. Full compliance with the Health Plan A pay-for-performance composite score equals $6.3 million; 90 percent compliance with Health Plan B pay-for-performance composite score equals $300,000.

The sample Board and Executive Quality Dashboard (which contains data for illustrative purposes only) presents current fiscal-year targets as well as future targets and flags measures that meet or are on track for meeting those targets. Dashboard metrics reinforce the link between quality and financial performance by tracking the effect of improvements in the rates of complications, readmissions, and mortality on cost savings on a year-to-year basis.

Ideally, the quality committee should meet frequently to provide more opportunities for improving the metrics and to prepare for board meetings. In general, the committee should plan to take a deeper dive into the metrics so committee members will have additional context and insight to share with the board during board meetings.

Spectrum Health takes the same model that is used for financial reporting as the basis for measuring quality, safety, and value. As a result of this structure, board finance and quality committees can view performance improvement from the same structured vantage point and analyze financial and quality metrics in the same rigorous manner.

Applying the Financial Performance Improvement Framework to Quality

Spectrum Health has created a platform so board finance and quality committees can more easily work together. The health system takes the same model that is used for financial reporting as the basis for measuring quality, safety, and value. According to this framework, both the finance and quality departments have yearly budgets that list their major projects, and both departments set year-end goals. Finance and quality departments produce monthly reports, and department leaders are held accountable for evaluating progress and meeting specific monthly or quarterly milestones. As a result of this structure, board finance and quality committees can view performance improvement from the same structured vantage point and analyze financial and quality metrics in the same rigorous manner.

Recognizing that top-performing hospitals typically leverage the strategic plan to define and commit resources to high-priority financial endeavors and to assign responsibility for operationalizing those

priorities, Spectrum Health sets five-year strategic plans for both finance and quality. The system selects tangible goals for the balance sheet, operating margin, capitalization ratio, and bond rating as well as the ratio targets that are needed to achieve these goals. It follows the same procedure for setting overall long- and short-term quality and safety goals by, for example, using national quality and safety initiatives to identify specific performance standards that should be achieved within five years and the incremental steps that will lead to compliance along the way.

Spectrum Health also makes sure to factor in both clinical and financial goals in its performance improvement metrics for the board. Spectrum Health produces dashboards for at least 80 percent of its inpatient volume for 35 high-volume adult and pediatric conditions, and all dashboards include clinical and safety process and outcomes measurements as well as cost metrics. In addition to quality and safety data, dashboards include information on cost, including the cost of supplies and pharmaceuticals, an estimate of the direct costs related to complications, and estimates of costs of operational inefficiencies that lead to duplicated or unnecessary services. A before-and-after financial analysis of quality and safety improvement projects compares costs at baseline and at the end of the reporting period so board members can assess value on a project-by-project basis as well as organization-wide. The five-year quality targets act as a beacon while annual goals serve as tangible, short-term goals pointing toward that beacon. Board members are accustomed to using this process and methodology to monitor long-term financial performance results, making it an optimal framework to adapt for the quality arena.

In summary, by educating board members about the links between finance and quality, championing quality, and providing strategically selected dashboards and other tools, other organizations can adapt Spectrum Health's model for elevating quality and value to the top of the board's agenda.

The Governance Institute thanks Joseph J. Fifer, FHFMA, CPA, president and CEO, Healthcare Financial Management Association, for contributing this article. He can be reached at jfifer@hfma.org.

Exhibit 2. Sample Board and Executive Quality Dashboard

Composite Measures	FY13 Target	FY16 Target	Ending September 2013	Comments or Notes
Core Measures and HCAHPS				
1. Appropriate Care Score (24-month mean)	95%	100%	96%	Meeting 2013 target
2. HCAHPS (24-month mean)	80%	85%	78%	May miss 2013 target
3. VBP Estimate (% payment and amount)	125%/ $1.9 M	200%/ $3.5 M	97%/$1.6 M	Estimating a partial loss of withhold
Readmissions and Mortality				
1. Overall Readmission Rate (24-month mean)	12.5%	10.0%	12.2%	Statistically significant decrease in January 2013
2. Overall Mortality Rate (24-month mean)	1.9%	1.7%	2.3%	No improvement
Safety				
1. AHRQ Patient Safety Measures (%>AHRQ benchmark, rolling 12 month)	<20%	0%	13.3% (2/15)	Meeting 2013 target
2. Serious Safety Event Rate (rolling 12 months)	0.50	0.20	0.88	Meeting 2013 target
3. Infection Prevention (composite score FYTD)	85%	100%	95%	Meeting 2013 target
4. Medication Safety (composite score FYTD)	85%	100%	63%	May miss 2013 target
Improvement and Savings—All Clinical Dashboards				
1. No. Statistically Improved EBM Measures (FYTD)	15	15	17	Meeting 2013 target
2. No. Statistically Improved Complication Rates (FYTD)	15	15	12	May miss 2013 target
3. No. Statistically Improved Mortality Rates (FYTD)	5	5	7	Meeting 2013 target
4. No. Statistically Improved Readmission Rates (FYTD)	5	5	8	Meeting 2013 target
5. Cost Savings from Outcome Improvements	$20 M	$20 M	$17.25 M	On track to meet year-end goal
Pay-for-Performance				
1. Health Plan A (composite score, FYTD)	100%	100%	100%	100% performance =$6.3 million
2. Health Plan B (composite score, FYTD)	100%	100%	90%	90% performance=loss of $300,000
3. Quality ICP Score (January–March 2012)	90%	100%	93%	Meeting 2013 goal
Other				
1. HAC (occurrences reported by CMS)			12	
2. Readmission Calculator (% payment and amount)			-0.15%/ $23,499	

Note: This dashboard streamlines oversight and review by highlighting a series of measures that blend similar items of data into composite representations of key performance indicators taken from scores of more detailed reports for frontline staff. The dashboard is accompanied by supporting documents, including detailed dashboards or process control charts.

Source: John Byrnes, "Driving Value: Solving the Issue of Data Overload with an Executive Dashboard," *hfm*, October 2012.