

## The Criteria for Systemic Cost and Quality Enhancement

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Most healthcare leaders have felt something like **Exhibit 1**, with various quality enhancement tactics and initiatives running through their minds. In today's healthcare industry there is more pressure to perform than ever before. While working in the most regulated industry in the country, hospitals, health systems, and physician groups are now tasked to drive out costs while also improving quality. For years, the healthcare industry subscribed to the notion that society had to choose between low costs and high quality. But healthcare consumers have now seen through that argument and rightfully expect both simultaneously.

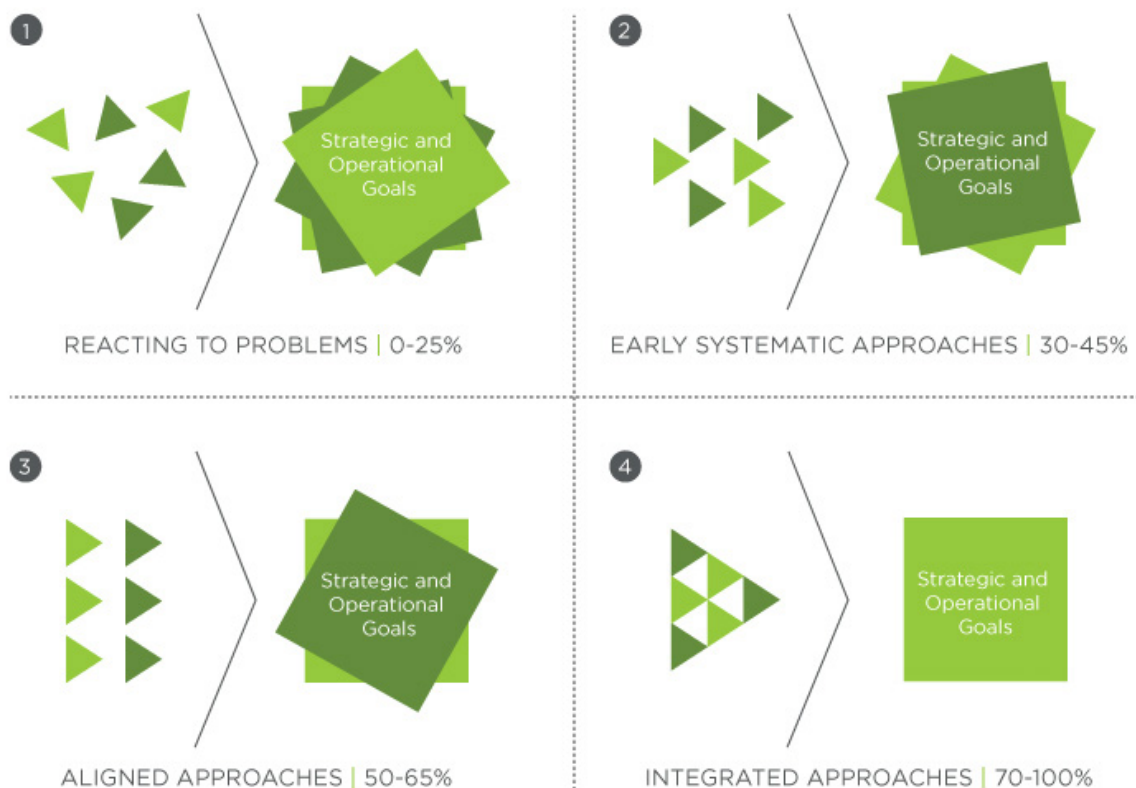
This complex dyad cost/quality challenge drives governing boards and executives alike to look for quick fixes and silver bullets. Like a physician who orders Tylenol for a post-op patient with a fever without considering the possibility of sepsis, administrators sometimes reach for tactical solutions that do not always address the overall systemic causes or create sustainable solutions. However, as the fiduciary, the board of directors is in a position to drive toward longer-term, systemic transformation to address both cost and quality, and ensure improvements are sustained through measurable results.

### Exhibit 1: The Pressure to Perform



Source: All the exhibits in this article were adapted from the Baldrige Framework (available at [www.nist.gov/baldrige/products-services/baldrige-excellence-builder](http://www.nist.gov/baldrige/products-services/baldrige-excellence-builder)).

## Exhibit 2: Steps towards Mature Processes



To help guide board members through this dilemma, **Exhibit 2** illustrates four phases of maturation in organizational leadership and performance. As depicted in the upper left quadrant, though the workforce may be working extremely hard, many organizations are only reacting as issues present themselves. Daily work (arrows) bear little connection to the organization's strategic and operational goals. Cost and quality performance is invariably low in such environments.

As management develops systematic approaches to daily operations and strategy, results begin to improve in areas of focus. Though some processes remain duplicative and variation continues, the organization should take pride in these areas of achievement. More importantly, they should ask the question: How do we replicate our successes in x-y-z initiatives across the enterprise to improve our overall market position?

As organizations mature, leaders reach the point where they start thinking like a system and align different parts of the organization. This is when leaders start to drive out variation and see measurable cost and quality improvement across multiple dimensions of system performance and operating units. The ultimate goal is an organization that is both aligned *and* integrated, with process variation and duplication driven out. Every person knows and understands the organizational vision,

their personal role in making that happen, how to add value to the processes they work in, and the metrics that will determine the organization's success.

### Systemic vs. Tactical

With the pressures of healthcare reform, it is critical that governing boards ensure management addresses the complexity of industry challenges with a systematic and strategic solution, and not a tactical response. After careers of working on such systematic solutions, the authors firmly believe that the single best framework for addressing organizational issues is contained in the Malcolm Baldrige National Quality Award's performance excellence process. While tactical approaches work to solve specific problems in specific areas, the Baldrige performance excellence framework allows for the integrated approach needed to meet reform challenges with sustainable results. Let us explain.

Most of the tactical solutions outlined in Exhibit 2 are effective tools used to address very specific situations. Here are some examples:

- **LEAN:** Principles of LEAN process improvement are particularly effective when used in the right place. The LEAN manufacturing process was designed to eliminate waste and force use of the right tools in the right place at the right time. LEAN is also useful to make sure the right people are in the room to ensure informed decisions.

Just about every care provider could benefit from incorporating LEAN thinking in their culture and LEAN tools into their performance improvement methods. However, despite the extraordinary value, even the most effective LEAN initiative is not as effective in helping develop an organization-wide, comprehensive process to ensure all employees are personally engaged in working toward the organization's vision and strategic intent.

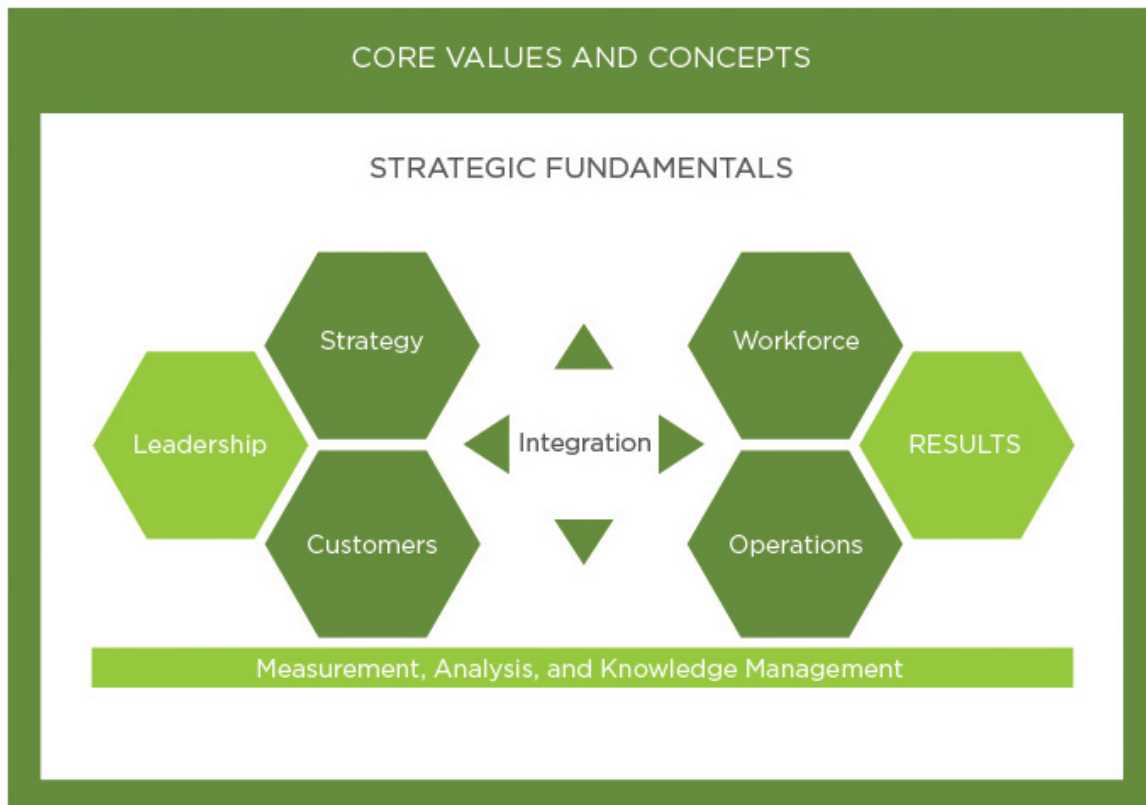
- **Strategic planning:** An effective strategic planning process is essential to the success of any organization, with the most impactful processes driven by cycles of evaluation and improvement. The board of directors should own the strategic plan and ensure it's replicated every year, to include mandatory annual board training. However, even the most robust strategic planning process will not by itself address, for instance, cost per case in the OR, post-op infections, or effective emergency department patient throughput.
- **Employee and physician engagement:** Leading healthcare organizations understand that they must first take care of their employees before expecting them to provide optimal care to patients and communities. A healthcare organization that does not work effectively to engage its employees and physicians will never be as effective as it could be in any area.

However, working to engage employees and physicians does not necessarily help the board of directors to be more educated in healthcare governance, initiate system-wide data communication initiatives, or produce a highly effective OR.

- **High reliability:** Pursuing high-reliability cultural attributes, methods, and tools is relevant to many healthcare organizations. As providers create a specific, data-driven approach to improve patient safety and drive preventable errors to zero, patients will be saved and costs will be reduced. However, without a comprehensive process that engages the entire organization from the board to the cafeteria, leaders risk marginalizing high reliability like other quality initiatives from the past. Complex organizations require a systems approach to integrate safety with business imperatives, as well as other market requirements such as patient-centered care and population health.

All of these and many other tactics are *necessary*, but not *sufficient*. Success demands a process to effectively manage each area simultaneously and create the ability to use the right tactic at the right time to produce the long-term, sustainable results that organizations need.

### Exhibit 3: Baldrige Framework

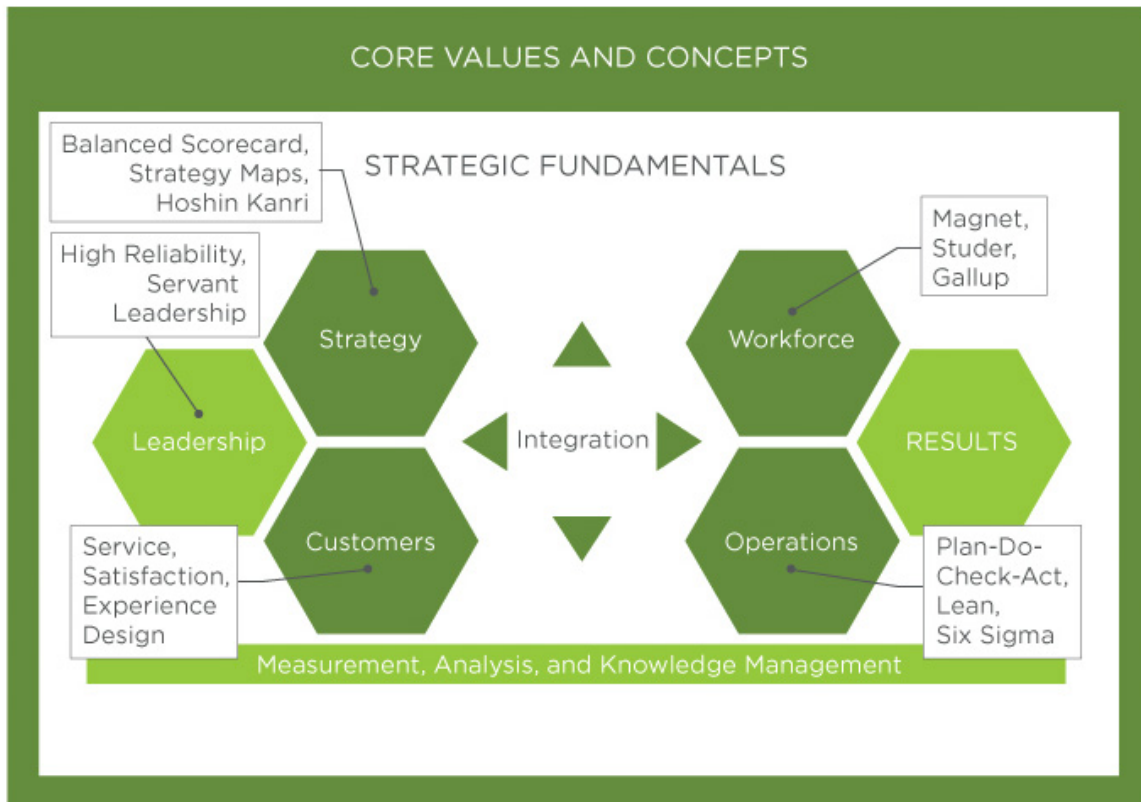


**Exhibit 3** on the previous page, shows all of the areas needed for an organization to truly develop a “systems” approach to capability building. The seven categories listed in this diagram are all interwoven and must be simultaneously addressed. Only then will an organization be able to move from fighting fires and reacting to a fully aligned and integrated system that can achieve sustainable results across multiple

dimensions of performance. Each of these are of equal importance.

Unfortunately, as hospital administrators work to find quick solutions to the extraordinary pressure being placed on the industry, they often will use one of the tactics shown in Exhibit 2 to obtain a quick fix to a specific problem. Such a solution is not sustainable, and rarely addresses the larger systematic process.

### Exhibit 4: Baldrige Framework with Tactics



The Baldrige framework can be applied to all healthcare organizations, regardless of type. While there are significant differences in what a fiduciary board or an advisory board can do, this process will benefit any organization independent of the nature of whether they are an operating board or a holding company board. A fiduciary board will have more latitude to enforce this process, but knowledge of the process will help board members or leaders of any organization.

As **Exhibit 4** suggests, we have much to accomplish. Many of the tactics being used today address only one area of the entire systems framework outlined in the Baldrige performance excellence process. Absent a larger systems approach to guide where and when to use the specific tactics, the tactics themselves become the focus, instead of the longer-term sustainability that come from the systems approach. Initiatives turn into silos without leaders who can

oversee their organizations with a comprehensive systems view.

In our experience working with providers across the country, there are two main reason they generally give for not wanting to pursue a Baldrige journey:

- 1) "We just have too much going on right now to pursue Baldrige."
- 2) "We would pursue Baldrige, but we are focused on another quality program."

These are understandable responses for those who believe the Baldrige's performance excellence criteria is just an award or another tactic. But as we have experienced firsthand, the framework can align *all* of the other tactics toward one common goal of organizational alignment that eliminates duplication. Ironically, for organizations that are pursuing too many tactics, performance excellence is the answer, not another problem. The Baldrige discipline forces

leaders and managers to focus, ensure effective execution, and deliver results.

As a board moves to develop a long-term process for improvement, it will also need to create momentum toward a sustainable systems approach, as opposed to “bandage” solutions. The Baldrige’s performance

excellence criteria is essential for creating a process that addresses quality and cost as an integral part of a much larger systematic approach. The Baldrige framework provides a blueprint and scaffolding to use in organizing and evaluating the tactics you chose to meet the challenges your organization faces.

*The Governance Institute thanks Rulon F. Stacey, Ph.D., FACHE, and Kate Goonan, M.D., Managing Directors at Navigant, for contributing this article. They can be reached at [rulon.stacey@navigant.com](mailto:rulon.stacey@navigant.com) and [kate.goonan@navigant.com](mailto:kate.goonan@navigant.com).*

