

THE CRESCENT GROUP

In 2000, Catholic Health Initiatives, the fifth largest U.S. health system, retained us to design and implement a system-wide performance management program. That program receives much of the credit for the system's nine-figure turn around over the following five years. The following is a summary review of the program, originally presented as the keynote address to the American College of Healthcare Executives by Kevin Lofton, now President & CEO of Catholic Health Initiatives, and Ruth Brinkley, now Ascension Health West Ministry Market Leader.

Building Effective System-wide Performance Management Programs

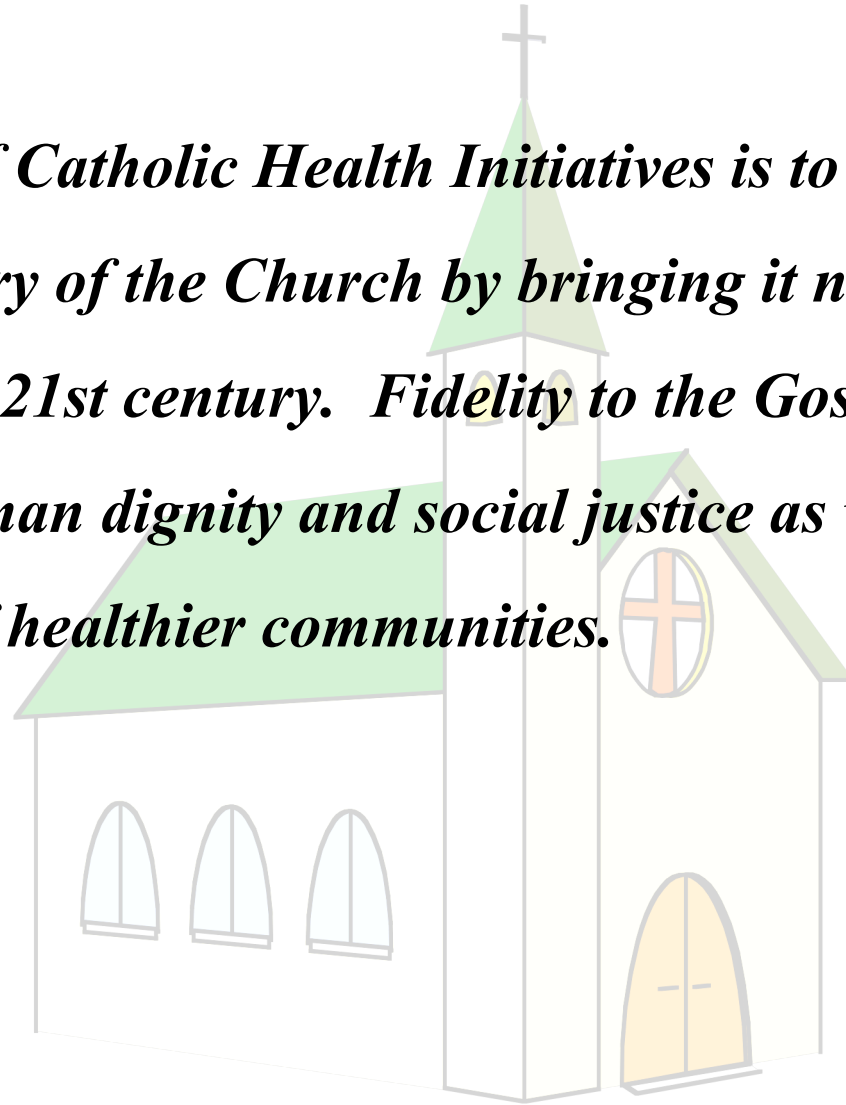
*American College of Healthcare Executives
Chicago, IL*

March 26, 2001

Kevin E. Lofton, FACHE

Ruth W. Brinkley, CHE

The mission of Catholic Health Initiatives is to nurture the healing ministry of the Church by bringing it new life, energy and viability in the 21st century. Fidelity to the Gospel urges us to emphasize human dignity and social justice as we move toward the creation of healthier communities.



A spirit of innovation, a legacy of care.

Founded in 1996~

Catholic Health Corporation

Omaha, Nebraska

Franciscan Health System

Aston, Pennsylvania

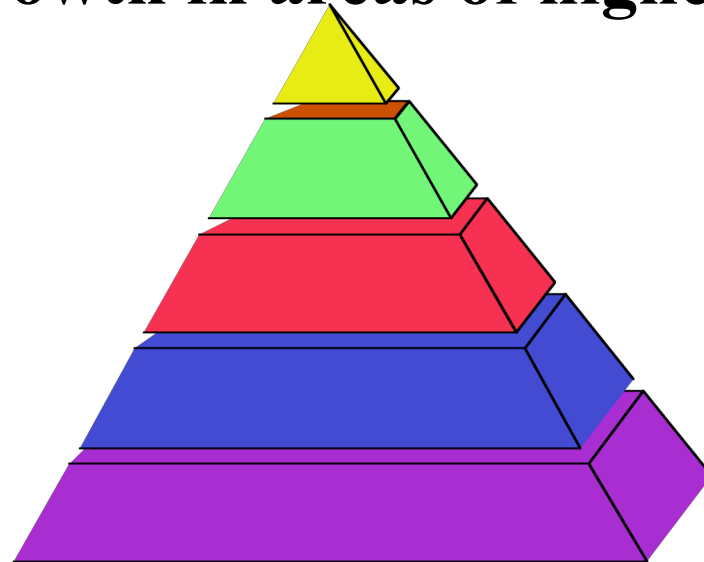
Sisters of Charity Health Care Systems

Cincinnati, Ohio

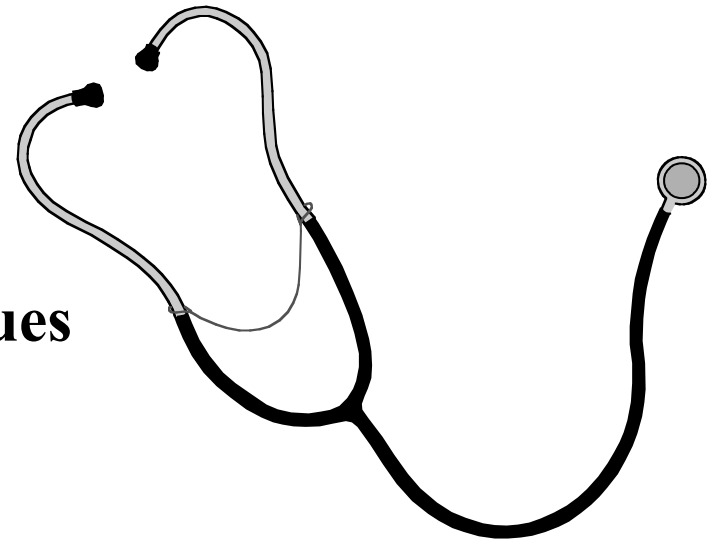
Sisters of Charity of Nazareth Health Systems

Nazareth, Kentucky

- ▲ **Extend the creative expression of Catholic Health Initiatives' ministry**
- ▲ **Improve clinical, operational and financial performance**
- ▲ **Build a commitment to service excellence**
- ▲ **Promote development/growth in areas of highest strategic importance**



- **One of the largest not-for-profit health care systems in the U.S.**
- **Based in Denver, Colorado, with operations in 22 states:**
 - **68 owned, acute care hospitals**
 - **48 long-term care, assisted living facilities, and residential unit**
 - **Nearly 30 affiliated acute-care hospitals**
- **Approximately 75,000 employees**
- **More than 850 employed physicians**
- **\$6 billion in assets**
- **\$5.7 billion in annual operating revenues**



Consolidated Operating Statistic
Year Ended June 30,
1999 **2000**

Acute Inpatient Days	2.14M	2.12M
Acute Admissions	444K	450K
Acute Average Length of Stay (days)	4.8	4.7
Residential Days	649K	700K
Skilled Nursing Days	1.26M	1.29M
Number of FTE's	58,327	56,145
Acute Inpatient Revenues as a % of Total Net Patient Services Revenue	31.7%	34.7%

Operational Alignment

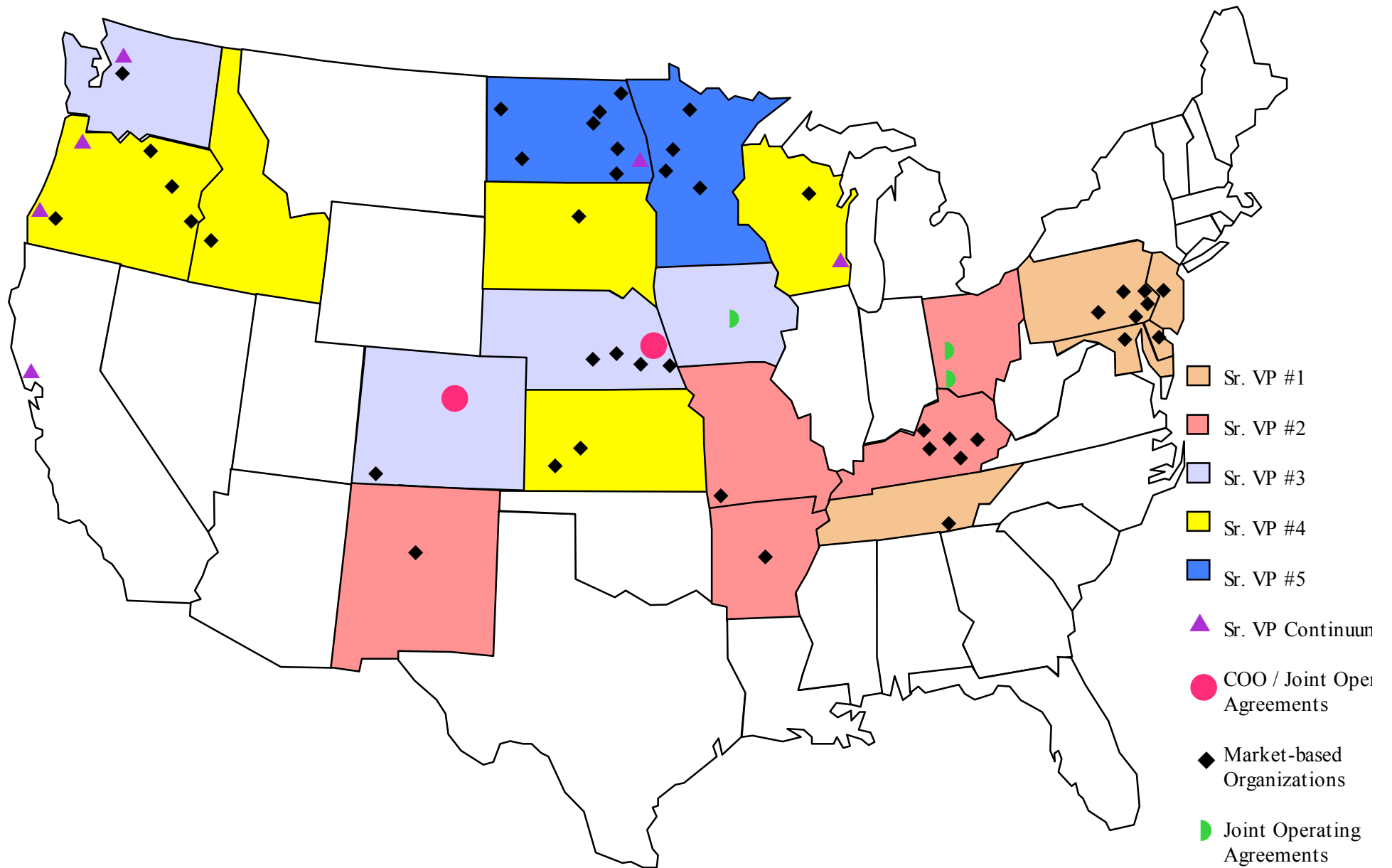
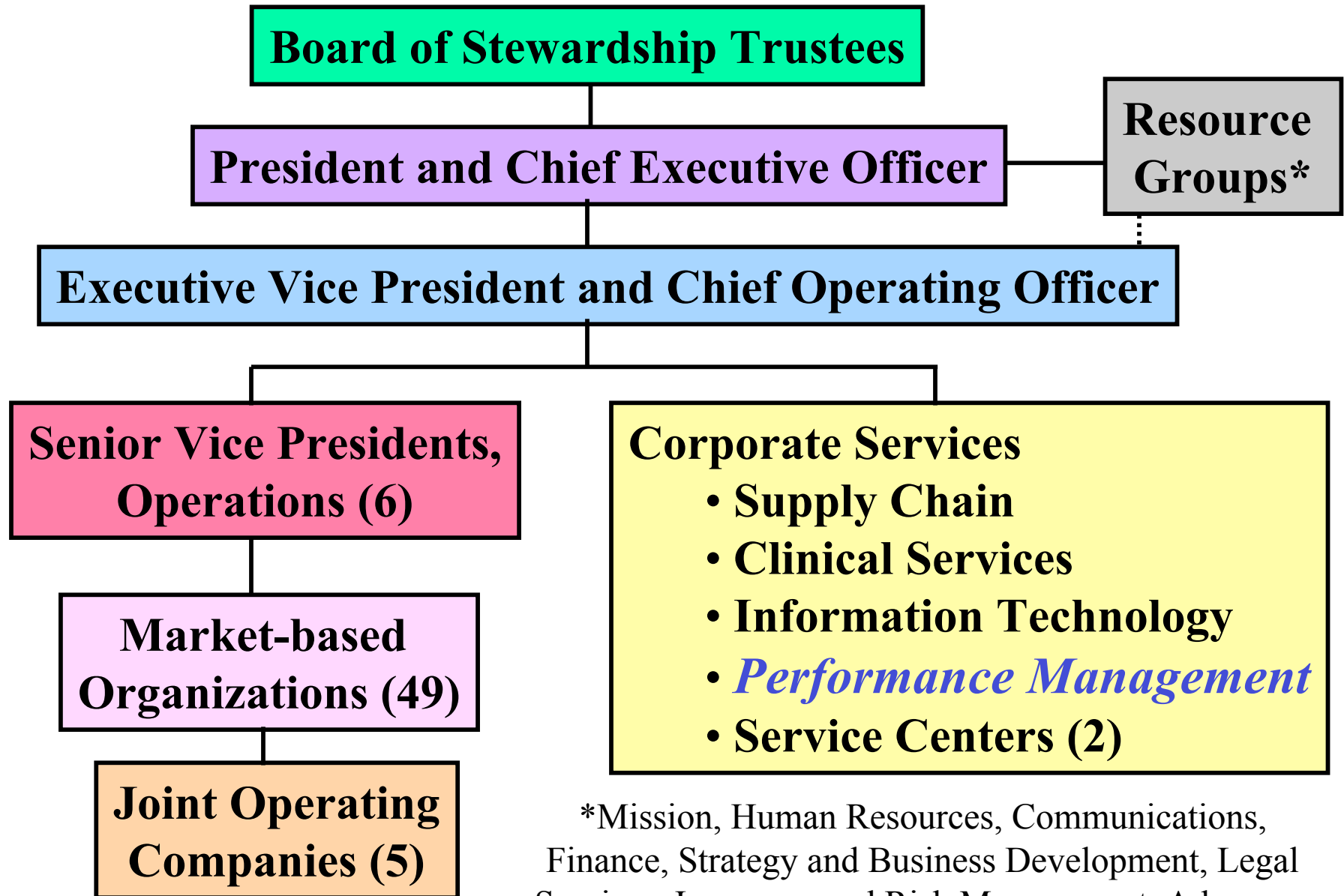


Table of Organization

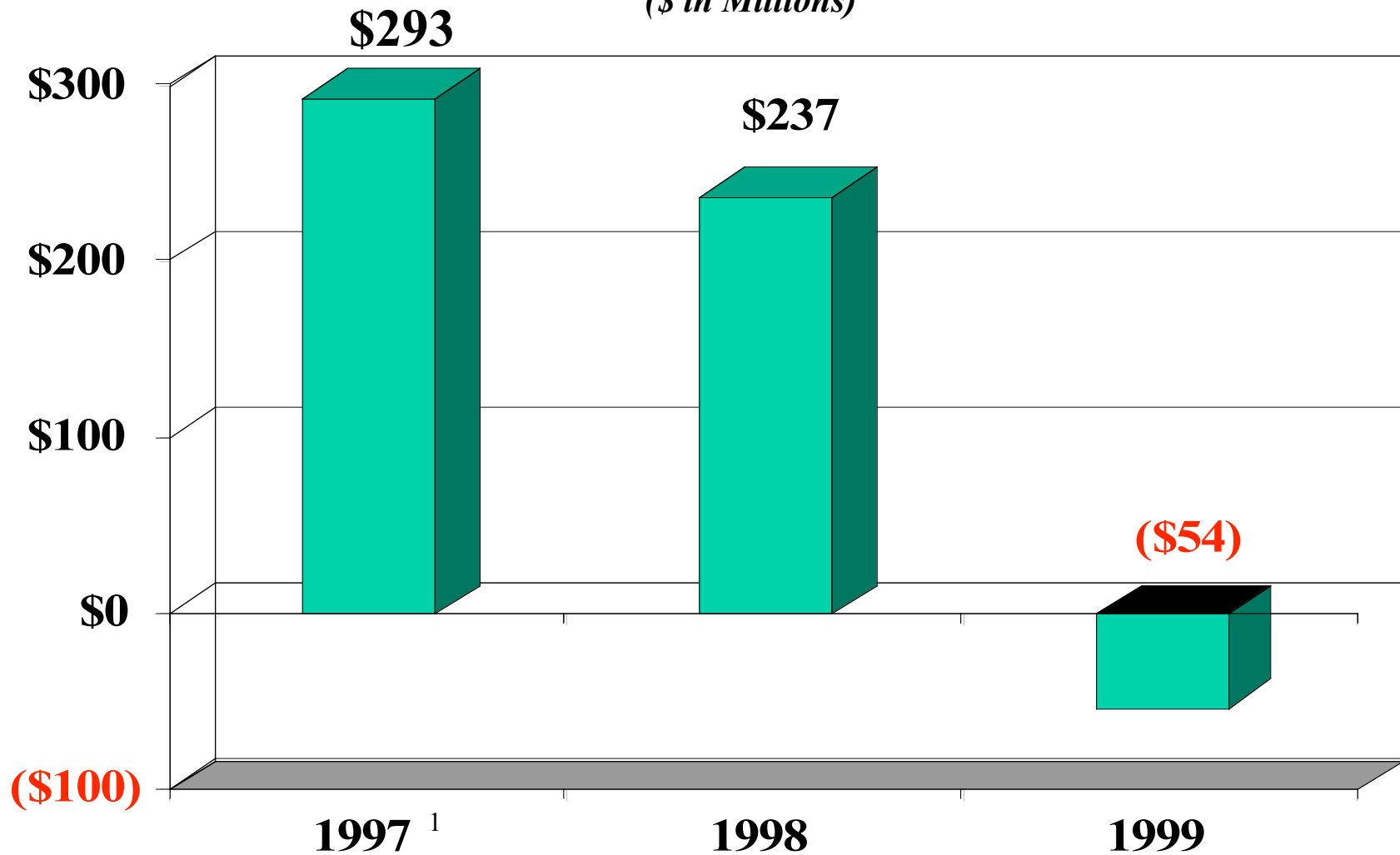


*Mission, Human Resources, Communications, Finance, Strategy and Business Development, Legal Services, Insurance and Risk Management, Advocacy

Three Year Overall Financial Performance

Net Income

(\$ in Millions)



¹ Restated – Includes former SCNHS

Reasons for Declining Performance

↓ **Declining reimbursement**

- BBA Amendment

↓ **Changing market conditions**

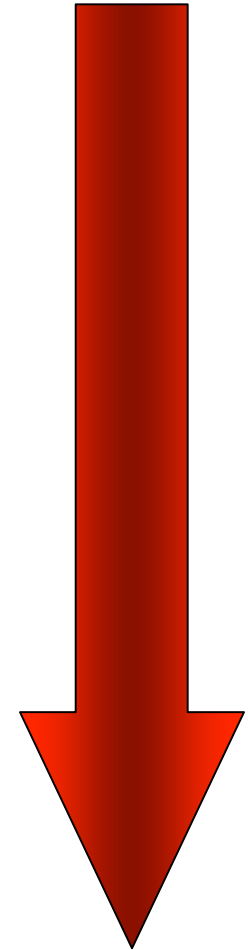
↓ **Early system formation**

↓ **Lack of clarity regarding:**

- Performance expectations
- Need for each market based organization to be self-sustaining

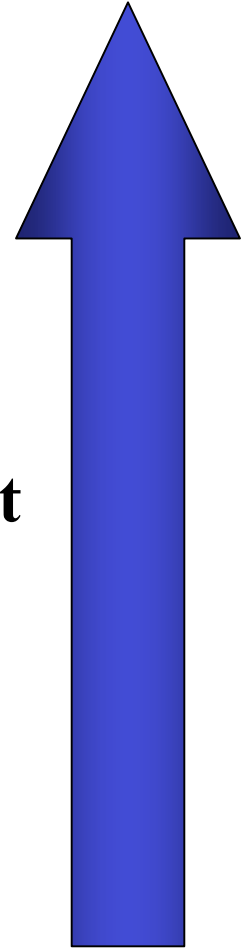
↓ **Lack of focus on:**

- Consistent, frequent measurement
- Effective management systems at local level



Actions To Improve Performance

- ↑ Heightened Board involvement**
- ↑ Enhanced senior leadership direction/oversight**
- ↑ Organizational realignment--greater focus on operations**
- ↑ Clear expectations for performance improvement**
- ↑ Performance management initiative established**
 - **Priority market-based organizations identified for intense support/assistance**
 - **Performance management team/resources assembled**



- ✓ **Definition and Purpose**
- ✓ **Critical Success Factors**
- ✓ **Building an Effective Process**
- ✓ **Infrastructure/Tools**
- ✓ **Outcomes**
- ✓ **Lessons Learned**
- ✓ **Future Industry Trends/Implications**
- ✓ **Future Initiatives**
- ✓ **Q&A**



Performance Management Purpose

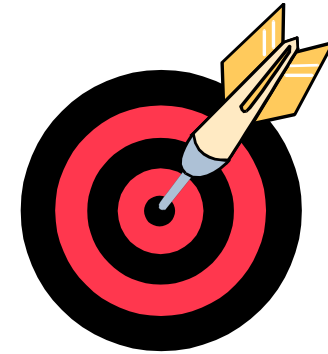
Performance management is a systematic approach to performance improvement through an ongoing process of establishing strategic performance objectives; measuring performance; collecting analyzing, reviewing, and reporting performance data; and using that data to drive performance improvement.

The purpose of the performance management effort is to:

- sustain the Catholic Health Initiatives mission*
- generate sufficient capital to fund the mission*
- facilitate and enable a culture of high performance*

Performance Management Critical Success Factors

- Improved performance expectations
- Measurement/accountability
- Clear improvement goals, objectives, targets
- Quantitative/qualitative analysis
- Infrastructure, support, tools, discipline
- Effective processing, reporting, knowledge management
- Clear, consistent messages
- Executive leadership, visibility, assistance, support



8 Steps To An Effective Performance Management Process

***P**roblem Identification*

***E**valuation/Analysis*

***R**igor*

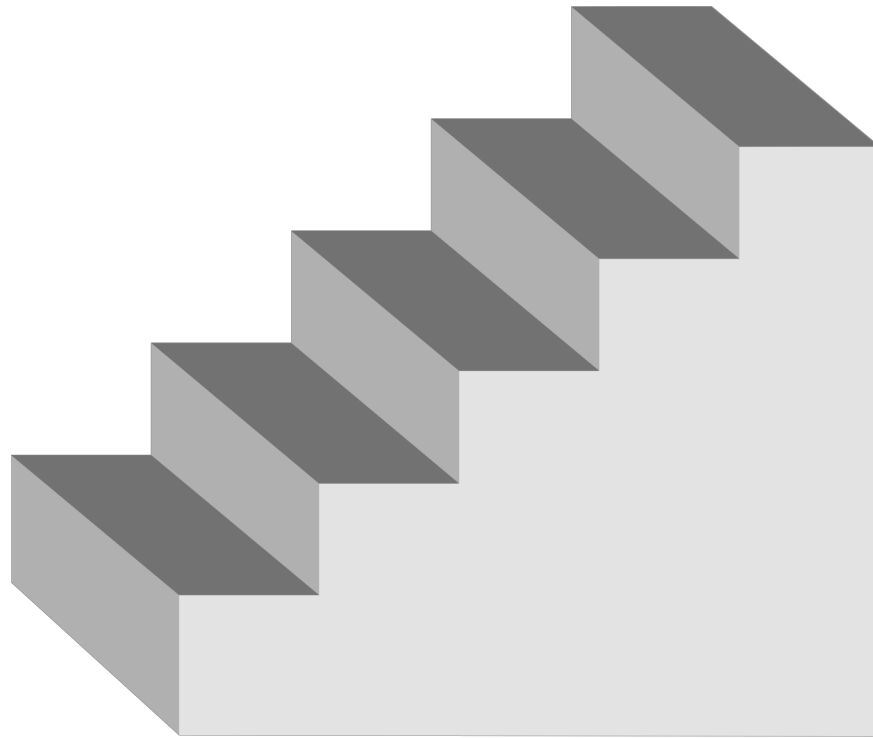
***F**ocus*

***O**utcomes*

***R**oles*

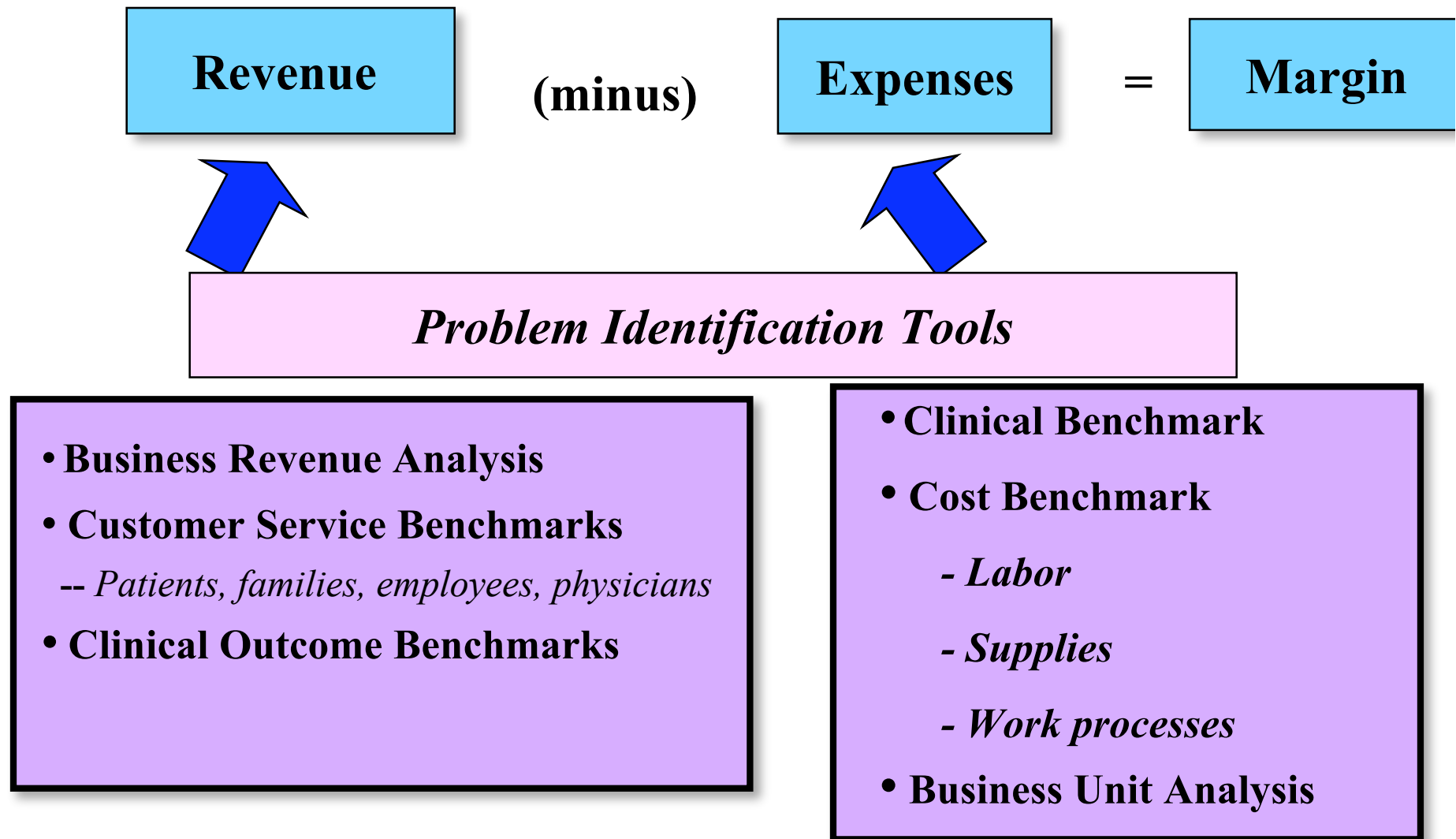
***M**essages*

***S**ponsorship*



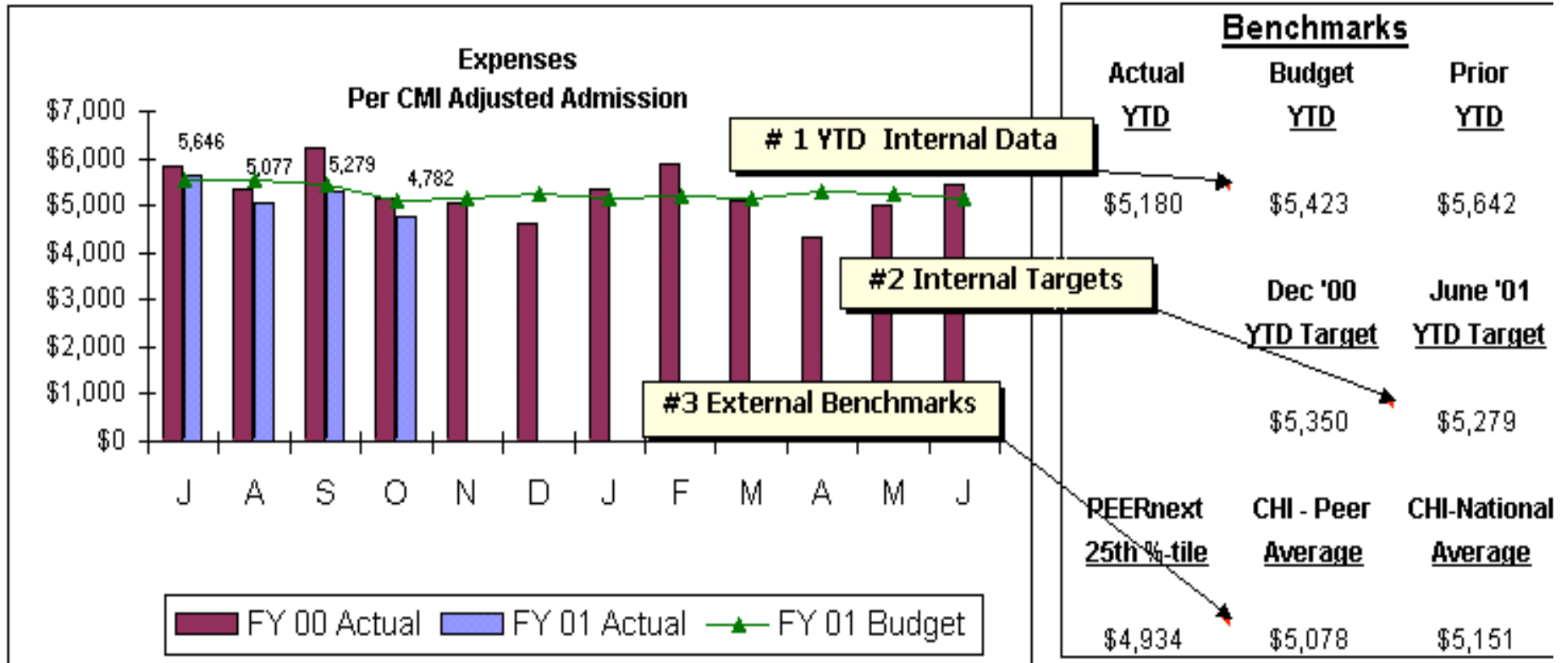
Problem Identification--Analytic Quantification

Problem Identification Strategies/ Tools



Profitability

Expenses per Case-Mix Index Adjusted Admission



- Consolidated Excess of Revenue over Expense before Investment Income
- Net Patient Services Revenue per CMI Adjusted Admission

Evaluation/Analysis--Root Causes

Facility Name: Any Hospital
Location: AnyTown, USA

Department Name: EXAMPLE Cost Center

Cost Center #: 6010

Workload Statistic: PATIENT DAYS

Volume : 3,066 2,196 2,500

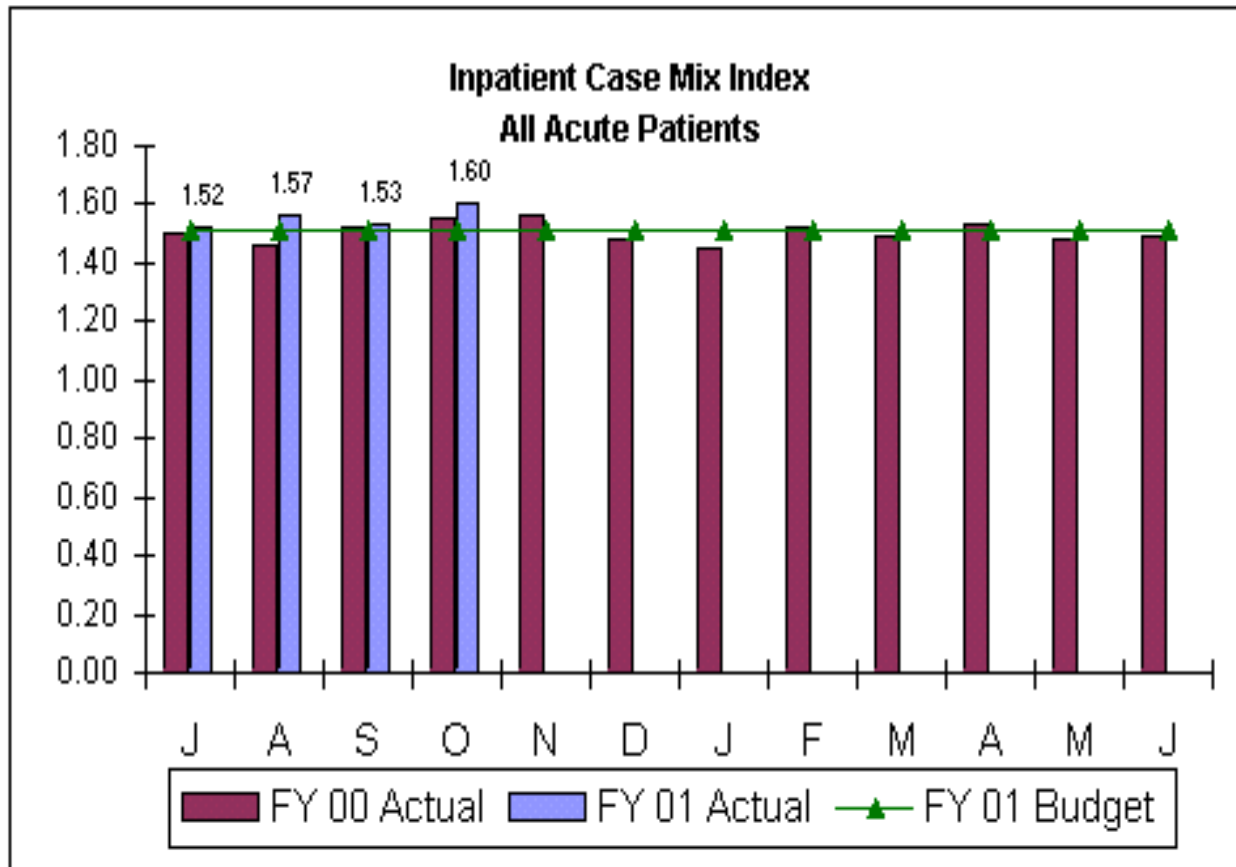
Paid Hourly Rate : \$ 29.41 \$ 24.44 \$ 24.42

	Hours or Cost			Hours or Cost per Unit of Service				Best Performance	Actual Variance
	Annualized FYTD 0901	Budget FY01	Actual FY00	Annualized FYTD 0901	Budget FY01	Actual FY00	PEERnext 25%tile	Projected Hrs & Cost	from Best Performance
FTEs	21.23	16.51	19.44					21.06	0.16
Total Hours (Paid)	44,152	34,342	40,433					43,813	
Total Hours (Prod)	39,678	30,564	34,611	12.94	13.92	13.84	12.84	39,373	
Productive Percent	89.9%	89.0%	85.6%						
Cost :									
Sal & Wages	\$ 1,298,369	\$ 839,225	\$ 987,558	\$ 423.41	\$ 382.16	\$ 395.02		\$ 1,288,401	\$ 9,968
Benefits	\$ 69,739	\$ 59,610	\$ 77,732	\$ 22.74	\$ 27.14	\$ 31.09		\$ 69,203	\$ 535
Agency	\$ -	\$ -	\$ -					\$ -	\$ -
Medical Prof Fees	\$ 20,004	\$ 20,400	\$ 18,050	\$ 6.52	\$ 9.29	\$ 7.22		\$ 20,004	\$ -
Purchased Services	\$ 2,364	\$ -	\$ 120	\$ 0.77		\$ 0.05		\$ 137	\$ 2,227
Cons and Legal Fee	\$ -	\$ -	\$ -					\$ -	\$ -
Supplies	\$ 58,442	\$ 87,504	\$ 78,050	\$ 19.06	\$ 39.85	\$ 31.22	\$ 21.45	\$ 58,442	\$ -
Other	\$ 5,551	\$ 17,488	\$ 2,395	\$ 1.81	\$ 7.96	\$ 0.96		\$ 2,822	\$ 2,729
Total	\$ 1,454,469	\$ 1,024,227	\$ 1,163,905	\$ 474.31	\$ 466.41	\$ 465.56		\$ 1,439,009	\$ 15,459
									Labor
									\$ 10,504
									Non-labor
									\$ 4,956

Evaluation/Analysis--Root Causes

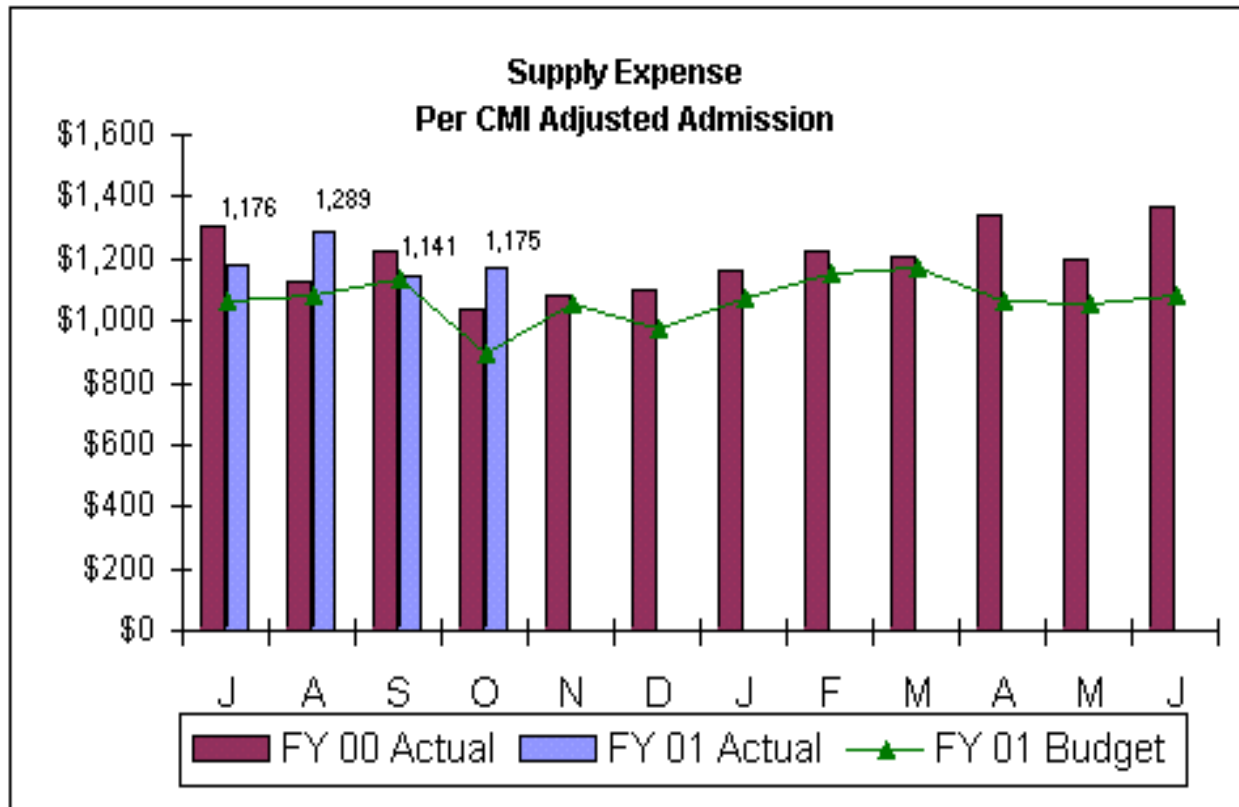
<u>Cost Center</u>	<u>Department</u>	<u>Projected Opportunity</u>		
		<u>Labor</u>	<u>Non-Labor</u>	<u>Total</u>
6010	Medical Surgical	\$ 126,809	\$ 4,956	\$ 131,765
6160	Anesthesiology	\$ 103,068		\$ 103,068
6200	Physical Therapy	\$ 82,750		\$ 82,750
7020	Skilled Nursing Unit	\$ 78,751		\$ 78,751
7025	Pharmacy - Outpatient	\$ 58,082		\$ 58,082
7035	Dietary	\$ 37,640		\$ 37,640
7040	Administration & General	\$ -	\$ 34,849	\$ 34,849
7045	Pharmacy - Inpatient	\$ 29,041		\$ 29,041
7050	Perfusion	\$ 28,700		\$ 28,700
7060	Environmental Services	\$ 22,812		\$ 22,812
7160	Plant Operations	\$ 19,693		\$ 19,693
6080	Public Relations	\$ 13,764	\$ 1,457	\$ 15,221
7170	Laboratory	\$ -	\$ 12,000	\$ 12,000
Total		\$ 601,110	\$ 53,262	\$ 654,372

Price & Volume Variances in Revenue




Benchmarks		
Actual	Budget	Prior
<u>YTD</u>	<u>YTD</u>	<u>YTD</u>
1.55	1.51	1.51
	<u>Dec '00</u>	<u>June '01</u>
	<u>YTD Target</u>	<u>YTD Target</u>
	1.51	1.51
<u>PEERnext</u>	<u>CHI - Peer</u>	<u>CHI-National</u>
<u>25th %-tile</u>	<u>Average</u>	<u>Average</u>
1.48	1.46	1.21

Expenses (Labor & Supplies)



Benchmarks		
Actual YTD	Budget YTD	Prior YTD
\$1,197	\$1,043	\$1,170
	Dec '00 YTD Target	June '01 YTD Target
	\$1,033	\$1,069
PEERnext 25th %-tile	CHI - Peer Average	CHI-National Average
\$907	\$947	\$1,076

Set Goals to Establish What You Are Trying To Accomplish

 Improvement begins with setting well-defined, agreed-upon goals

— *Setting the intention firmly and clearly in place is crucial*

 Quantitative goals effectively communicate expectations

— *Example: “Reduce OR heart surgery costs by 20%” - clearly states that costs must be reduced by a specific amount, and that maintaining the status quo is not an option*

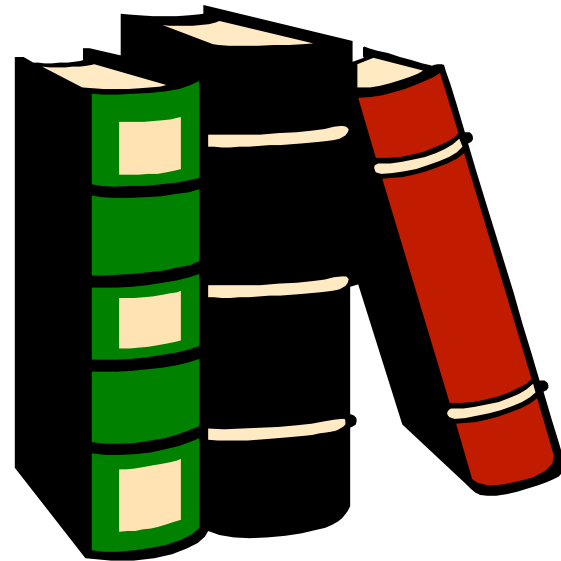
 Clearly focused actions achieve positive results

Monitor and Track Progress

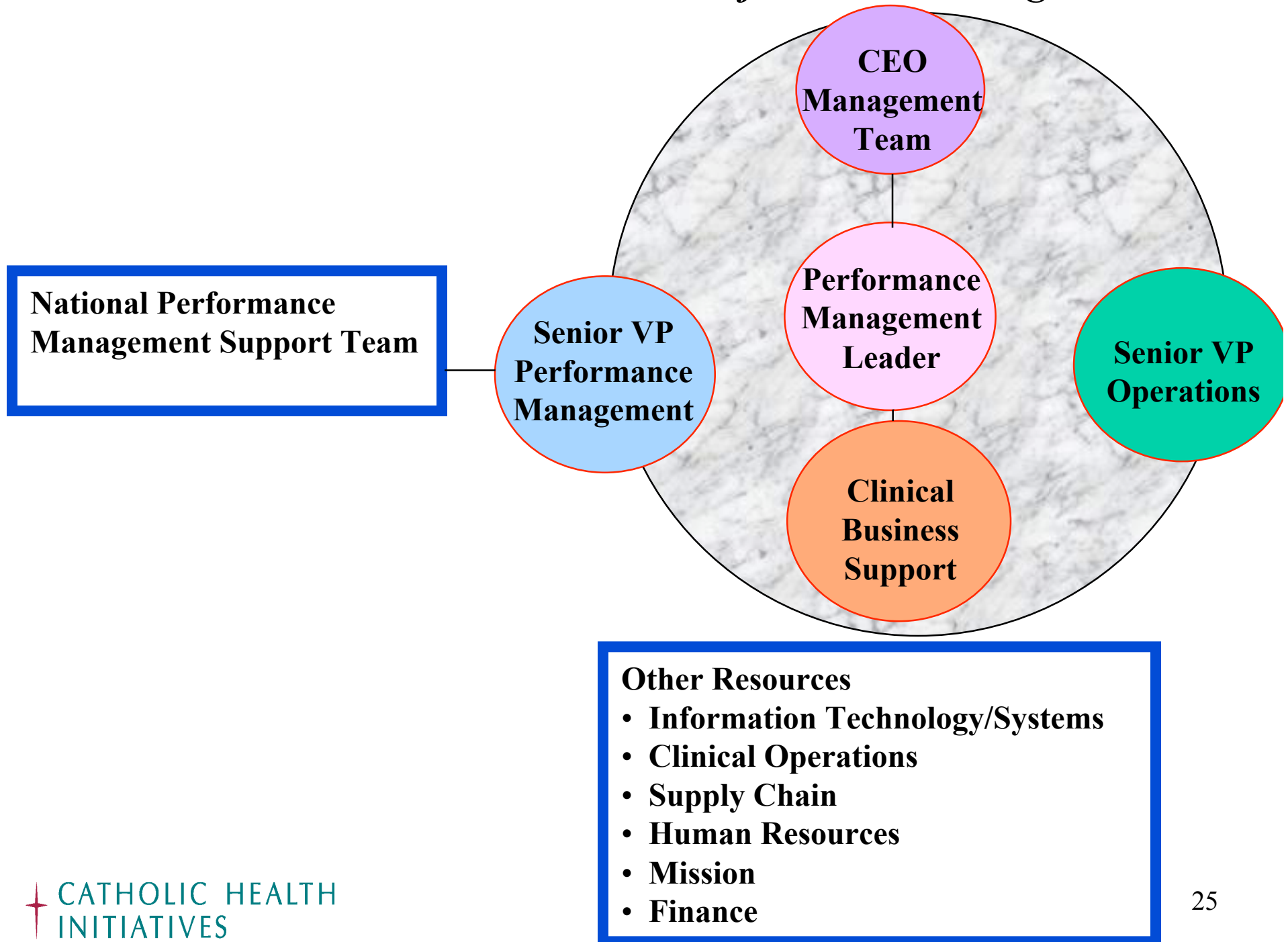
Performance Management

Monthly Report

- Graphically presents
 - Financial data and operational statistics
 - Quality indicators
 - Customer satisfaction measures
- To enable
 - Consistent and inclusive review
 - Identification of trends
 - Comparisons to internal/external benchmarks
- Used by
 - System executives
 - Local executive team/Board
 - Department managers



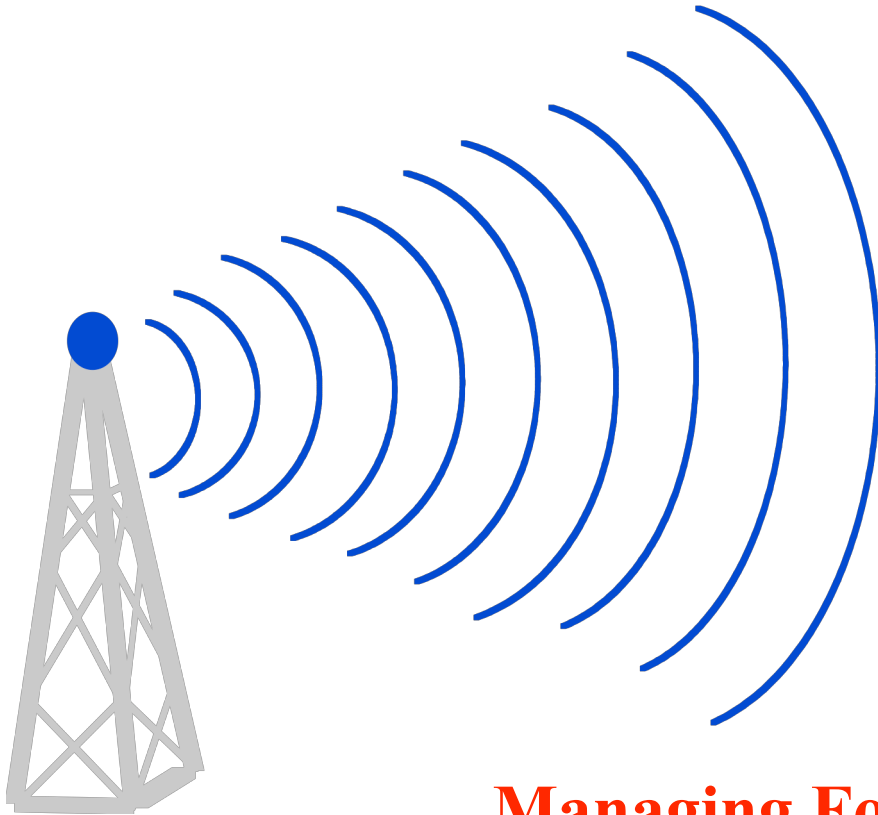
Performance Management Roles



Clear, Consistent Messages

Expectations of Improvement

- *Vision and direction*
- *Alignment of people*
- *Direction provided*
- *Motivation, inspiration, energy*



Managing For Results

- *Plans and budgets*
- *Organization and staffing*
- *Control and management of problem solving*

Leadership provides the vision to produce dramatic and significant change while, ***Management*** provides systems and controls necessary to create order and predictability in achieving outcomes.

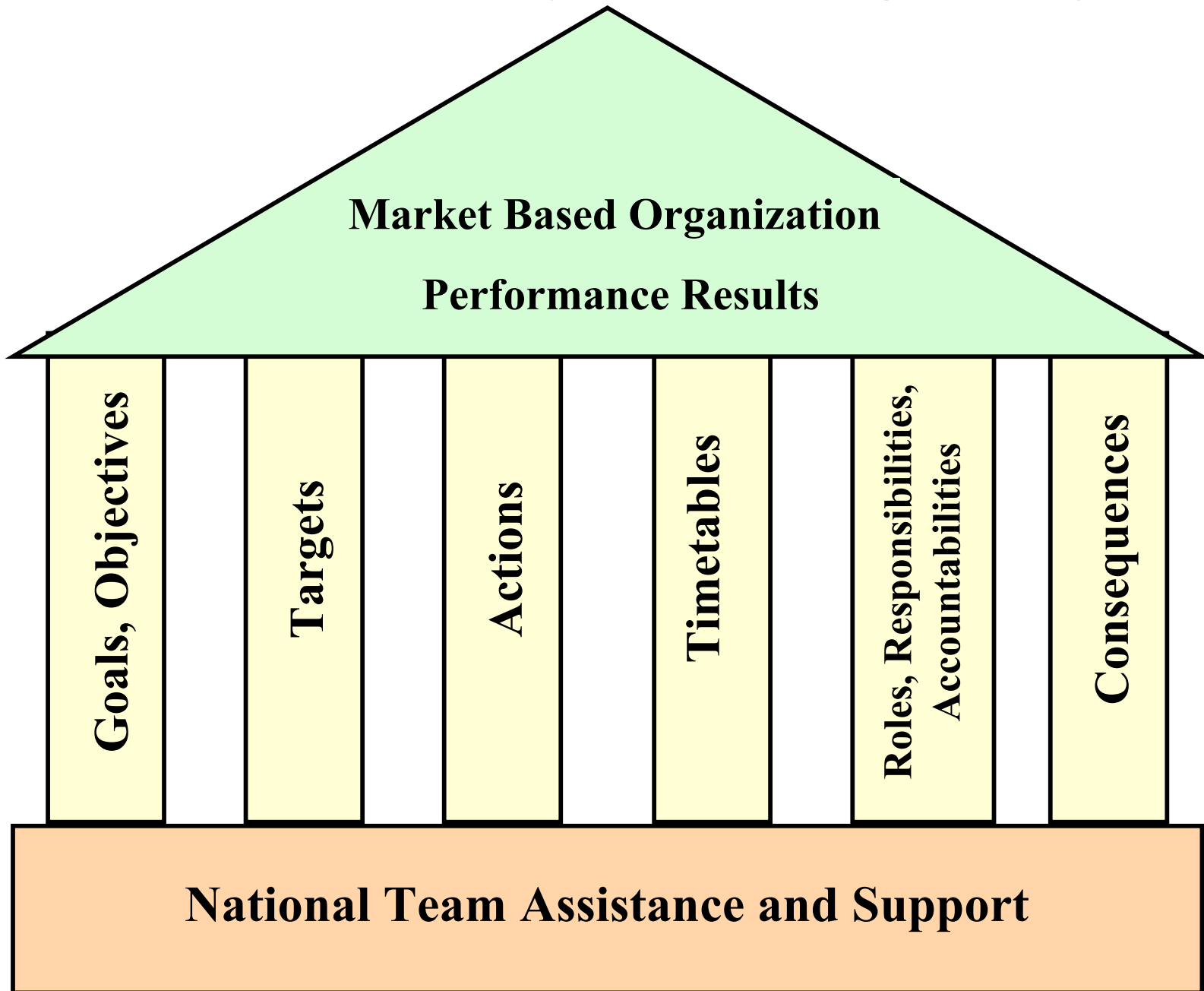
Leadership of the Outcomes

- ***New vision; dramatic change***
 - *New services*
 - *New approaches to management*
 - *More competitive organization*

Management of the Process

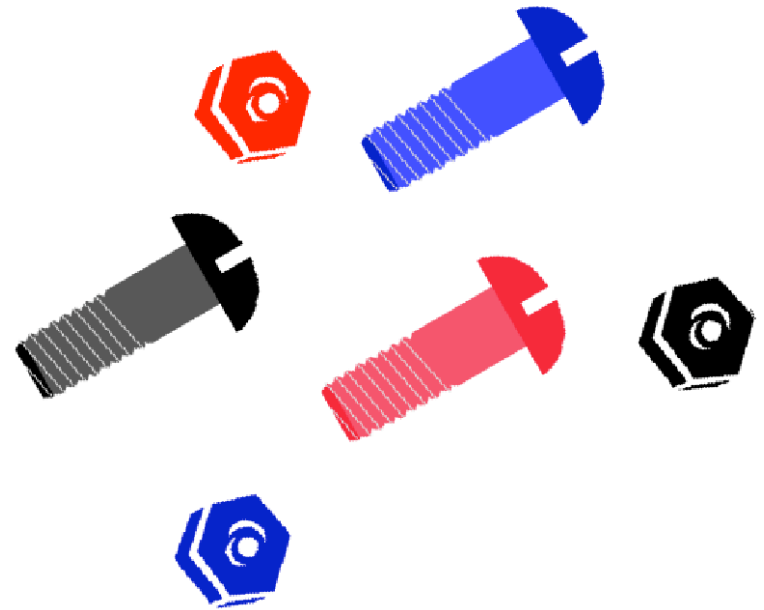
- ***Predictability/order***
- ***Short-term results***
- ***Service, quality, cost expectations***
e.g.,
 - *Decreased waiting times for patient*
 - *Achieving quality outcomes*
 - *Achieving budget targets*

Performance Management Infrastructure

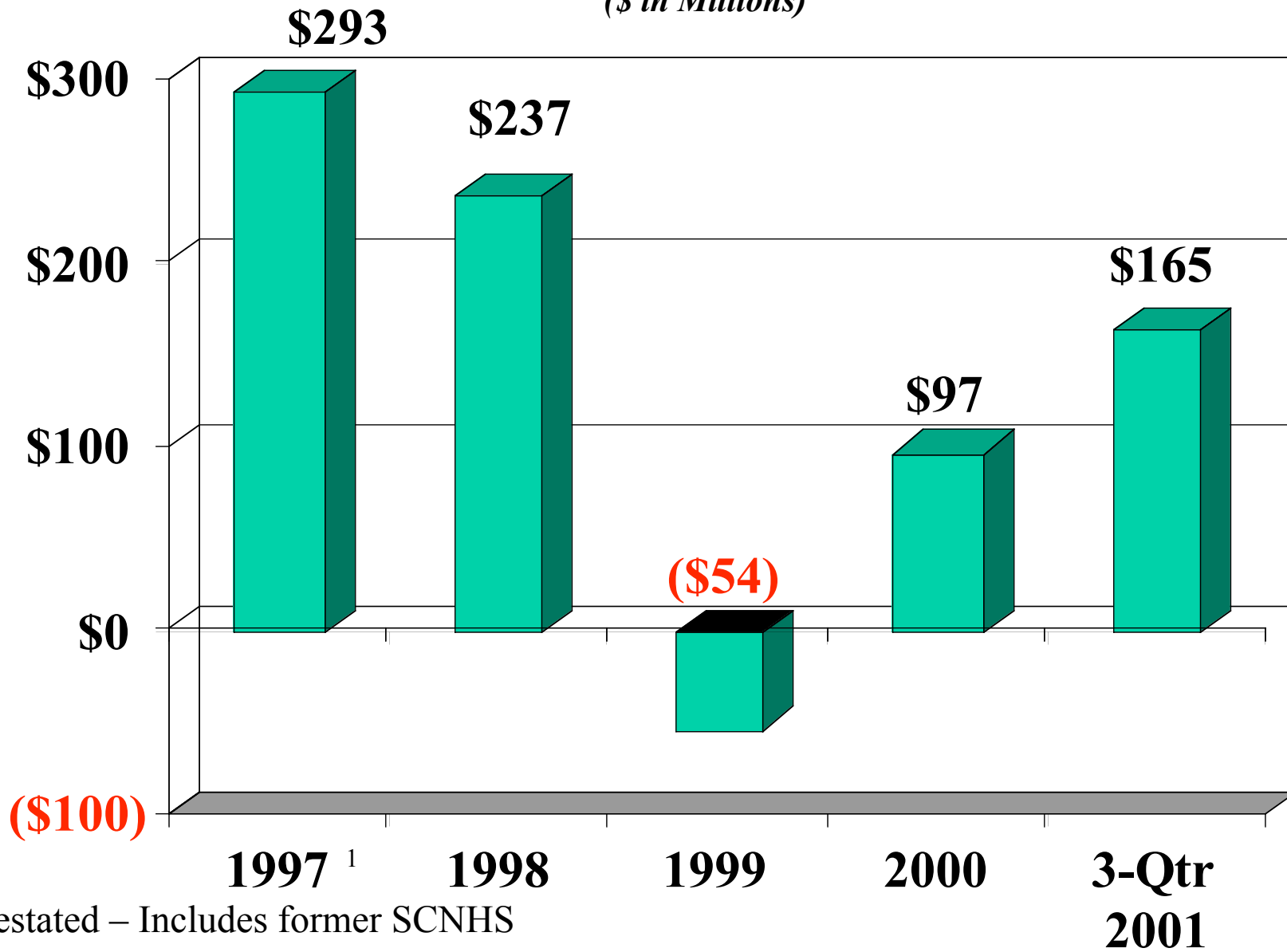


Performance Management Tools

- **Leadership Readiness Assessment**
- **Performance Management Monthly Report**
- **Forecast Gap Analysis**
- **DRG Analysis**
- **Department Opportunities Analysis**
- **Action Plan Summary**
- **Flexible Staffing Model**
- **Staff-to-Demand Analysis**
- **Daily Productivity Reporting**
- **Pharmacy Expenditures Tracking**
- **Physician Practice Management**
- **Operations Review**
 - OR
 - Pharmacy
 - Materials Management



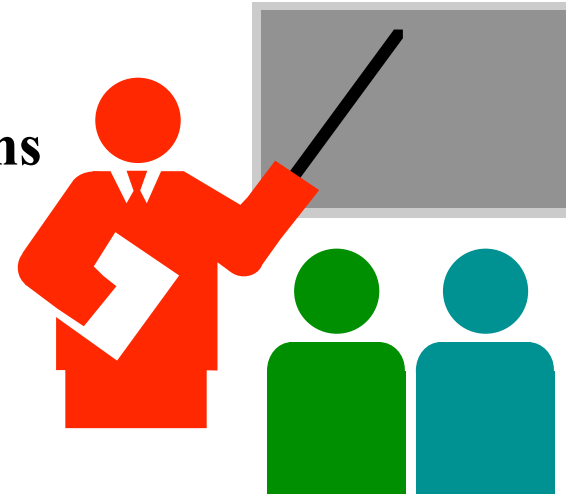
Performance Management Outcome,
Net Income
(\$ in Millions)



¹ Restated – Includes former SCNHS

Lessons Learned From Successful Organizations

- ✓ **Operating improvement a focused priority**
- ✓ **Executive to lead performance efforts**
- ✓ **Specific improvement goals/targets, expectations**
- ✓ **Analysis to determine root causes**
- ✓ **Actions to achieve improvement opportunities**
- ✓ **Focused effort, rigor, discipline on priority actions (*the vital few!*)**



Lessons Learned From Successful Organizations

- ✓ **Daily/weekly/monthly reporting; follow-up meetings with “high risk” managers**
- ✓ **All organizational leaders/managers engaged in process; accountable for improvement**
- ✓ **Divestiture of non-strategic services/physician practices**
- ✓ **Strong performance management/finance linkage**
- ✓ **Flexible improvement approaches; national model adapted to local culture**

