

Enterprise performance management in hospitals: White paper

Healthcare organisations operating in today's global economy are faced with increasing competitive and regulatory pressures, and a heightened level of public scrutiny. In such a market environment, there is a pressing need for shrinking decision cycles where improved, faster and more accurate decision-making enables organisations to create a competitive advantage.

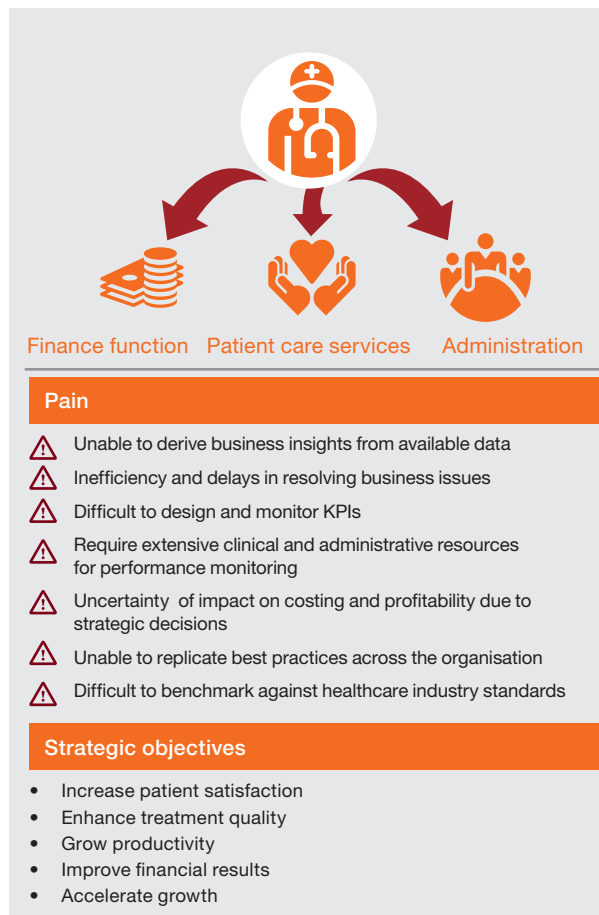
Hospital management has seen a drastic change over the years. Traditionally, hospitals were managed by select stakeholders like doctors, entrepreneurs and trusts, who had a say in the decision-making at an operational and board level. With more professionally managed hospitals coming up, stakeholders like private equity players, strategic advisors and financial institutions, too, have a say in the running of a hospital.

There is a paradigm shift in the priorities of managing a hospital today compared to those in the past—from focussing not only on the growth story but also more on the performance of the hospital in terms of clinical, operational and financial parameters. Focus on the bottom line has increased and so have the efforts to improve patient experience by providing quality patient care and treatment. Hospitals have become more conscious towards performance. Professionalism in management and better cost control can help the hospital in achieving better results as well as offer cost-effective treatment to patients, thus providing a win-win outcome for investors, medicine practitioners and patients. Indicators like return on capital employed (ROCE); earnings before interest, tax, depreciation and amortisation (EBITDA); internal rate of return (IRR); and price earnings (PE) multiples are tracked to see how healthy an organisation is. Operational parameters like patient satisfaction index, patient turnaround time and clinical management information system (MIS) data are also tracked regularly.

Earlier, hospitals were not considered as good investments by corporates and private equity firms as they were not well-managed and organised. Physician entrepreneurs did not have much exposure to the management side of the hospital and were more focussed on the clinical aspects, which should ideally be the case. Today, hospitals and the healthcare industry, because of the way they have transformed and evolved, have become one of the key investment destinations for investors.

The challenges faced by hospitals have also changed. Increased competition, pressure on margins, departmental costs and profitability, etc., are some of them. This combination is forcing the industry to implement aggressive measures to boost efficiency and better manage funds while ensuring superior quality of care and patient satisfaction. Inadequate and inaccurate data collection, analysis and presentation restrict the management from taking appropriate short-term as well as long-term decisions, thus affecting their strategies. The performance of a hospital has to be measured and managed efficiently to achieve the desired outcome.

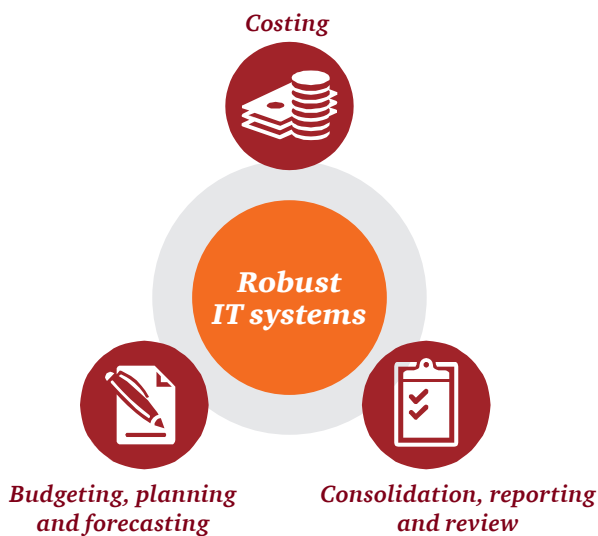
To overcome these challenges, it is imperative for the management to have the right perspective in all matters concerning the hospital. Enterprise performance management (EPM) will help the management in achieving this.



Overview of EPM

EPM consists of a set of management and analytic processes supported by technology that enables businesses to define strategic goals and then measure and manage the performance against those goals. An effective EPM results in active participation of all levels of managers and employees. It provides a closed-loop mechanism to understand whether end-to-end process flow improves the performance and enables the management to take necessary measures to meet the target. EPM solutions bridge the gap between high-level strategy and daily execution. They align and connect the entire organisation so that every employee knows how daily actions impact corporate goals.

EPM cycle/components



A repeatable process is required—one that sets goals, measures success and takes the action needed to improve performance.

Whether costing or budgeting will come first will depend on the maturity of the organisation's operations. If the organisation is in a commissioning phase, then it will be prudent to begin with the budgeting exercise, followed by costing. On the other hand, if the organisation is mature, based on past trends and performance, the costing exercise can be carried out and budgets can be revised accordingly.

If the budget and costing elements are in place, then the organisation should be technologically sound and backed up for EPM implementation and vice versa.

In the classical model, the EPM framework comprises three main components:

Planning and budgeting:

- **Strategy to plan processes:** It cascades enterprise vision into financial and non-financial metrics and creates accountability to enhance business performance across the organisation.

Costing and analysis of performance:

- **Measure to forecast process:** It is the agile day-to-day analysis, weekly and monthly reporting, modelling and decision support activities required to adjust business objectives and the forecast.

Reporting and performance reward:

- **Recognise to reward process:** It chalks out individual behaviours, delivery metrics and reward models to align people's performance to business performance.
- Reporting and review can be at multiples levels:
 - Operational reporting: What happened
 - Analytical reporting: Why it happened
 - Real-time reporting: What is happening now
 - Proactive notification: What might happen

Performance management involves consolidation of data from various sources, querying and analysis of the data, and putting the results into practice. Hospitals can obtain data from the MIS. Integrating an overall healthcare strategy with appropriate tools or strategy maps, with the appropriate underlying reports, allows clinicians to understand what drives better healthcare and helps the management see what drives the bottom line.

At hospitals, costing of clinical services is done at a broader level; however, a thorough look at cost controls and standard costing is often not undertaken. Details of costs incurred are not analysed. Once the basic structure has been set up, hospitals can choose to go for advanced costing methodologies like activity-based costing (ABC) for further business improvements, or identify the right service mix for each department's independent profitability. Many organisations make the mistake of restricting costing activity to meet regulatory requirements or for pricing inputs. The EPM framework tries to establish the concept of an enterprise-wide costing intervention to ensure that costing adds as much value as it is capable of, and helps the management to achieve their strategic goals through their decision-making process. This, if done correctly, shall answer quite a few queries of the management on departmental profitability.

The costing and profitability management framework (referred to as 'costing') can support the organisation in the following ways:

- Evaluate profitability department-and procedure-wise to ensure better linked performance rewards
- Provide a baseline for performance measurement
- Provide inputs to pricing (especially for cost plus and similar arrangements)
- Create inter-divisional comparisons and support cross-charging where necessary

While the EPM methodology has existed for several years and has been implemented in sectors like automobile and manufacturing, it is only in recent times that greater attention has been paid to leveraging the framework for tangible corporate gains in the healthcare sector.

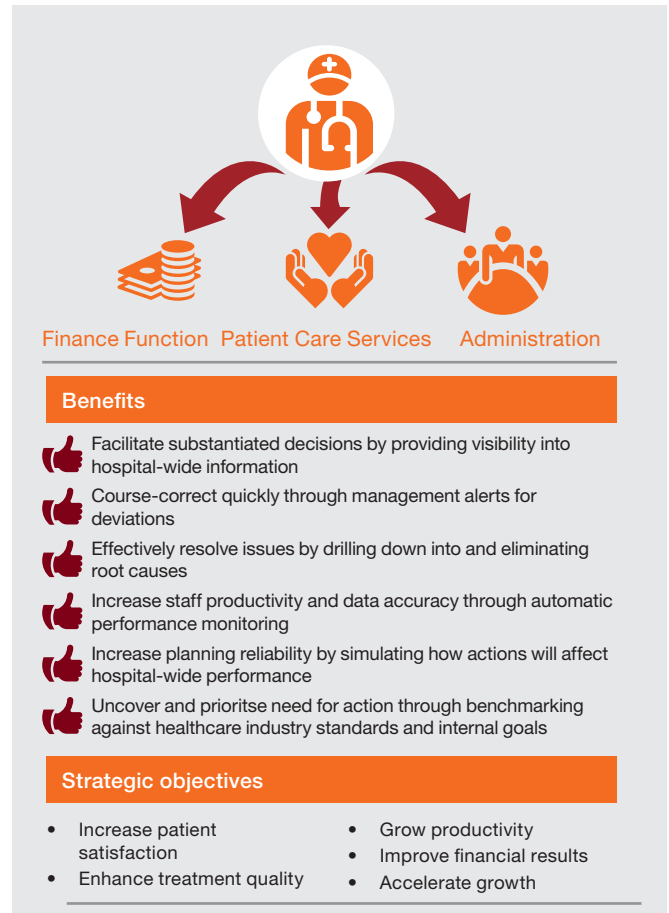
Integration of technology at all levels of EPM is of prime importance and will help deliver more accurate results.

Effective EPM implementation will help the management improve processes/operations based on the following considerations:

- Which services are earning better
- What the department's costs are vis-à-vis profitability
- Where costs can be reduced/better prediction of rising costs
- Whether to invest in equipment based on return on investment (ROI)
- Human resource optimisation
- Reprioritising budget allocations as per market changes
- Where to spend more in order to get better returns
- Closely tracking performance of various group units

Globally, it has been observed that world-class EPM organisations have higher market returns than organisations that do not implement EPM. World-class EPM organisations deliver **2.4 times** the equity market returns of industry peer companies.¹

¹ CFO challenges and opportunities in the flat world, Hackett Group, 2007

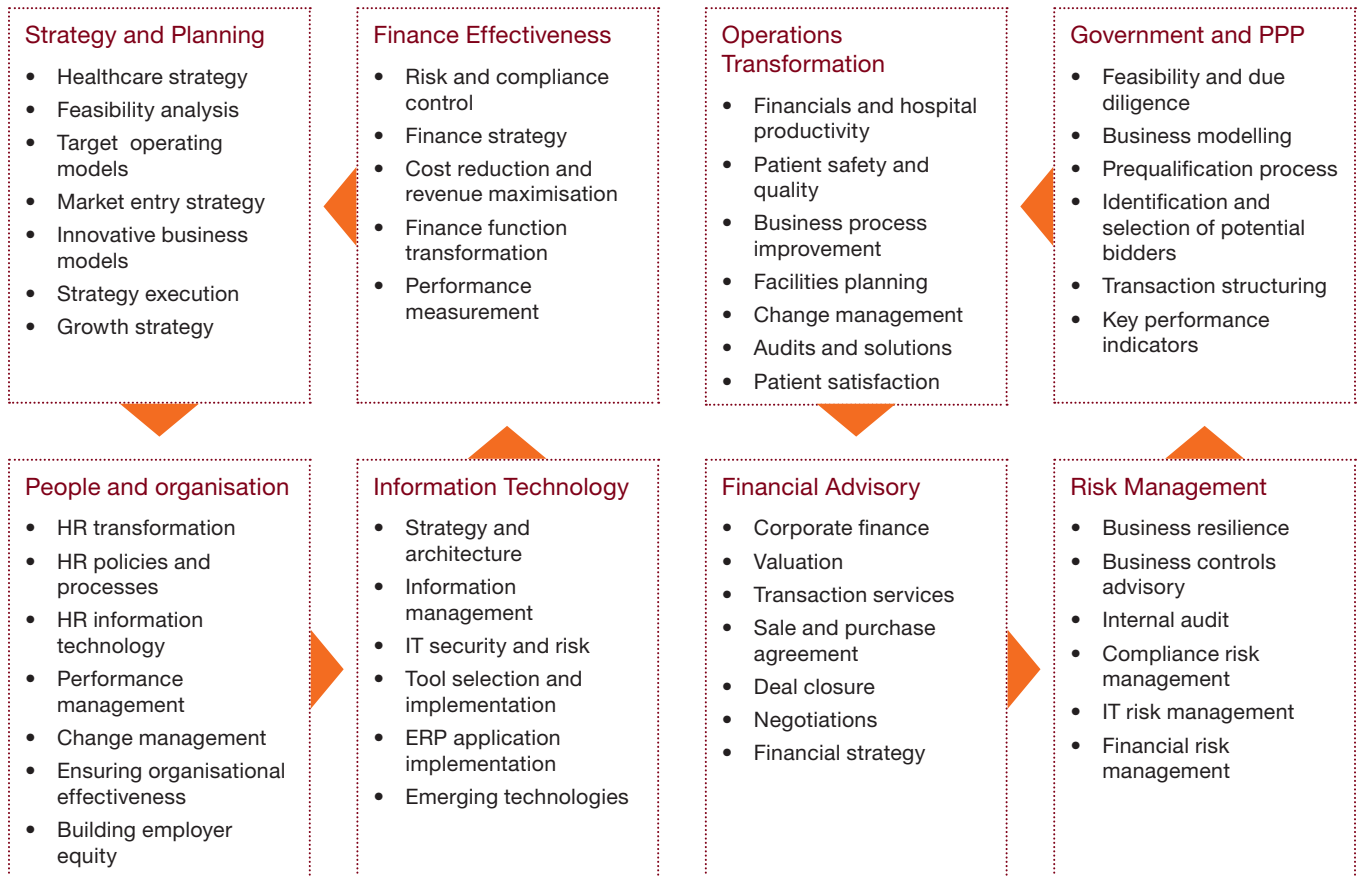


Enterprise performance management

Defining and communicating strategy, measuring performance, reporting and reviewing performance, and aligning people and culture



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