"The Balanced Scorecard Prescribed for the Health Care Industry"

An Honors Thesis (HONRS 499)

by

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May 1994

Expected Date of Graduation: May 1994
Purpose of Thesis

This discussion of performance measures is limited to the health care industry. The limitation of current financial performance brings the need for new, innovative measurement systems that provide managers of organizations (in any industry) with performance measurements that are relevant to decision-making and acquired soon enough to be, in fact, relevant. I have taken a modern financial performance measurement system developed by Robert S. Kaplan and David P. Norton for the manufacturing industry and applied it to the health care industry because financial success is not limited to the manufacturing industry. This is a capstone on my Honors College education at Ball State University because I am not only reading and comprehending an approach to financial problem-solving, I am recognizing that the concepts and ideas behind this measurement system is designed for one industry, its concepts and ideas can be applied to others. I have not only gained specialized knowledge, I am applying it.
Explanation of Topic

After graduating from the Accounting Department at Ball State, I will be employed by an accounting firm whose largest source of revenue comes from health care audits. I am, in effect, attempting to gain knowledge of a system developed for one field and to apply it to my chosen field. As an accountant, financial performance measurement will be a major concern for many clients that I will come into contact with. In fact, it may be a matter of life or death for their company. It is crucial that I provide them with relevant and timely data on financial performance to assist them in decision-making. With the increasing competition in the business environment, it will be extremely important to stay knowledgeable on the most innovative measurement systems and to apply them to my area of expertise if possible.
In the United States, the service industry has experienced tremendous growth. In fact, ninety percent of all jobs in the U.S. are service industry jobs. Within the service industry, the health care field has significantly as well. In today's competitive environment (including the health care industry), traditional performance measurement systems have proven themselves inadequate and, hence, obsolete. Currently, valiant attempts have been made to upgrade performance measurement systems by focusing on more relevant financial measures; others have focused on operational measures. The fact is that a balanced presentation of both financial and operational data is needed by decision-making managers in any industry. This integrated look at financial and operational data is the basis for the "balanced scorecard," developed by Robert S. Kaplan and David P. Norton as discussed in the January-February 1992 issue of Harvard Business Review.

The "balanced scorecard" is a set of performance measures designed to give managers a comprehensive view of their business in a timely fashion. The balanced scorecard includes financial measures to examine historical performance complemented by operational measures that are indicative of future performance. These operational measures include measures on customer satisfaction, internal processes, and innovation and improvement activities of the organization. Although the balanced scorecard was devised for the manufacturing industry, many of the concepts developed and discussed are pertinent and, thus, can be adjusted and applied to the service industry or, more particularly, a health care setting.
Reliance on one measure of performance can be extremely detrimental to the company, as managing an organization in today's environment requires that managers be able to view several areas of the entity's performance simultaneously. Because Mr. Kaplan and Mr. Norton realize this fact, the balanced scorecard gives managers important information from four different perspectives: the customer perspective (how do our customers perceive us?), the internal perspective (in what areas/activities must we excel?), the innovation and learning perspective (can we continue to improve and create value and how?), and, finally, the financial perspective (how do we look to our shareholders?). While looking at these four perspectives, the balanced scorecard forces managers to focus only on those performance measures that are most critical to the organization's goals and objectives, preventing information overload.

The balance scorecard, as developed by Mr. Kaplan and Mr. Norton, has already been successively put into effect by several companies for which it served several managerial needs. First, many seemingly unrelated items of the comprehensive organizational strategy are brought together by the balanced scorecard in one single management report. Second, the scorecard forces managers to consider, comprehensively, all critical operational measures in order to prevent suboptimization (achieving improvement in one area at the expense of another).

Developing the customer perspective is the initial step in
implementing the balanced scorecard and, although the customer perspective is crucial to any industry, it is, perhaps, even more applicable to the service industry than to the manufacturing industry for which it was designed. Health care clinics are especially vulnerable to customer perceptions, as they must perform medical services with a human touch. By looking at the typical mission statement for any entity, it is obvious that customers' perception of a company's performance has become a priority for top management. This is particularly true for a health care clinic. The balanced scorecard requires translation of a company's general mission statement on customer service into specific performance measures that reflect factors of actual importance to customers. Time, quality, performance and service, and cost tend to comprise the majority of important concerns of customers. In terms of a health care clinic, all these concerns would fall into an integrated view of the patient's visit to the clinic. Service time concerns would include the waiting time before appointments and the actual treatment time with the doctor. The managers of health care clinics should first set general goals in regards to customer service and then turn those general goals into specific goals and identify an appropriate performance measure for each specific goal.

While some information needed to assess whether the clinic is achieving its goals with respect to customer service can be found within the clinic itself, some data may need to be obtained from outside sources - namely, from the patients themselves. Health care managers may find that their patients define (or measure)
performance and service differently than does the clinic manager. Questionnaires (or surveys) distributed to patients is one example of obtaining customer (patient) opinions. Benchmarking procedures and "best of breed" comparison programs are alternatives as well. Using one or more of these technique forces managers of any entity to look at performance through the patients' eyes. It also allows the manager to adapt and adjust specific customer service goals in order to meet patient expectations. Cost is just one component of the total service picture, although health care cost are increasingly on the rise. Rising health care costs have even been a major target of President Clinton's legislative reform plan. The high salaries of doctors and expensive medical equipment maintain high health care costs. Managers face difficulty in trying to provide patients with the best medical treatment available while remaining sensitive to the cost.

The second aspect of the balanced scorecard is the internal business perspective. While performance measures based on patient expectations are crucial, these measures must be translated into internal plans of action to meet those expectations. Internal operations that are critical in satisfying patient needs must be the focus of health care managers.

The internal processes that have the greatest impact on patient treatment should be recognized, while the clinic's leading abilities and critical technologies needed should be identified and measured. Among these, the abilities and technologies the clinic wishes to excel at should be decided and specific measures for each
should be determined. This can be a huge task with the daily advances in medical technology and equipment. For a small health care clinic, maintaining abreast of the latest developments may be next to impossible because of the cost that usually accompanies them.

The two aspects of the balanced scorecard previously discussed deal with parameters important for clinic success. Health care clinics may not be thought of as being in direct competition with one another; in fact, it seems as though there are not enough doctors to treat everyone, as often appointments must be made weeks in advance. However, there is head-to-head competition in the health care industry as exemplified by the increase in television commercials for hospitals that no longer offer only medical treatment. Hospitals and other health care facilities offer a variety of counseling services to enhance the well being of individuals. Counseling services for illnesses such as alcohol abuse or dependency, adolescent emotional problems, and senior citizens who have lost their desire to live are but a few of the non-medical services recently offered by hospitals. This intense competition requires that clinics (or any health care organization) must improve on existing services offered and have the ability to offer new services or treatments that may be more effective. An expanded scope of services will invade the health care clinics in the near future.

The clinic's ability to innovate and improve existing services offered is directly linked to the financial success of the entity.
By offering new innovative services, patients will see that the clinic is actually looking out for them by obtaining the latest techniques and equipment in the medical world to offer them the most effective treatment. This will, in effect, create more value for the patients and can penetrate the health care market for new patients, ultimately increasing revenues. As an alternative to offering totally new treatment techniques and medical equipment, some clinics may find that simply improving on the current techniques and equipment will add just as much value to the organization. Innovations and improvements are to emphasize the role that continuous advances in medical treatments serve to continuously advance customer satisfaction. Again, cost for a small health care clinic is inhibitive.

The financial perspective of an organization is the last area addressed by the balanced scorecard. The financial perspective of a health care clinic is geared toward the investors' views of the organization. The clinic's strategy implementation and execution are contributing to the continuous increase in the revenues and profits of the clinic. Typical financial goals usually deal with profitability, growth, and value to investors. However, with today's complex business environment, financial performance measures (especially short-term measures) can provide managers in any industry with a very narrow, limited view of their organization because of inadequacies, historical focus, and inability to reflect contemporary actions and decisions that create value for the organization. In addition, financial performance measures do not
measure (or help to improve) customer satisfaction, product/service
quality, or employee motivation. Financial performance results
from internal actions and decisions that occur within an
organization. Financial success logically results from sound
fundamental decisions within the organization's processes.
Financial measures should not lead an organization's operational
actions. Kaplan and Norton have found that not all long-term
strategies are profitable. If improved performance fails to
improve the bottom line, managers should reexamine their basic
assumptions of their strategies and mission.

Even though it may be the incorrect perspective, a clinic's
view of its business environment and of the key factors
contributing to its success are the basis for customer
satisfaction, internal business performance, and innovation and
improvement measures. Even a set of balance scorecard measures as
discussed here do not guarantee a successful financial performance.
The concepts must be custom designed for each organization, as has
been done here for a health care clinic. The basic strategy of an
organization is its own; the balanced scorecard simply assists
managers in any industry in developing specific measurable
objectives for this strategy. Operational performance, as measured
in the scorecard, should improve financial performance. If not,
the company's strategy or its implementation should be reviewed
and/or revised. Managers should follow up operational improvements
with action. If they don't, financial success is sure to allude
them. A link should be made between operations and finance by
specifying how operational improvements will improve financial performance.

The balanced scorecard, as developed and discussed by Robert S. Kaplan and David P. Norton, represents a fundamental change in the underlying assumptions about performance measurement. A difference between the scorecard and previous performance measurement systems is that the scorecard requires involvement of managers who have the most comprehensive view of the company's vision and priorities. Financial experts are the only necessity under traditional performance measurement. Also, traditional measurement systems attempt to control human behavior by specifying specific actions to be taken by employees and then measuring whether or not those actions have, in fact, been taken. The balanced scorecard, on the other hand, focuses on organizational vision and control by setting goals for the organization. It is assumed, however, that all employees will adapt their behavior and take whatever action necessary in order to meet the goals. It is designed to have everyone involved in making the organization's vision a reality.

The balanced scorecard is a new approach to performance measurement that helps managers to understand interrelationships within the organization. The balanced scorecard goes beyond traditional performance measurements, ultimately leading to improved decision making and problem solving. Finally, the balanced scorecard combines the financial, customer, internal processes and innovations, and organizational learning perspectives
and, thus, can keep a health care clinic looking towards the future.

BIBLIOGRAPHY