

## From Good to Great: Connect Finance & Quality with Long-Term Vision

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Most governing boards of hospitals and healthcare systems do a good job. These boards understand their role, focus on representing the community and stewarding the precious community resources entrusted to them, use their committees effectively,<sup>1</sup> and expect (and receive) accountability from management.

How, then, can a hospital board move from “good” to “great?” First, the board must commit to an unrelenting pursuit of excellence, using the highest performance standards for both finance *and* quality. Being “very good” or “better than most” can no longer be good enough. Secondly, the board must have as much clarity in its long-term vision as the most successful corporations around the world. Research abounds that these enviable corporations take a long-term view, while always delivering exceptional products and services in the short term.

### Highest Standards for Quality and Safety

As all board members know, there is tremendous public and regulatory scrutiny regarding clinical quality and patient safety (see Exhibit 1). Each day, new Web sites emerge, proliferating “quality” data on individual hospitals and individual physicians. It is imperative that board members set high expectations for how the hospital will perform against credible public measures, despite often stated concerns of physicians about the inadequacy of these public measures (physicians tend to believe that many public measures do not take full measure of true quality).

#### EXHIBIT 1

Increased public and regulatory scrutiny regarding clinical quality and patient safety has pushed these issues to the forefront for most hospitals.



The board should make quality and safety a number one concern, equal to the time and focus traditionally placed on monitoring financial performance. Great boards require quality reports at each meeting on tangible outcomes, not just quality processes.

Boards of hospitals and systems that have achieved breakthrough improvements in quality and safety share several common characteristics:

<sup>1</sup> Damore, Joseph, “Getting the Most from Your Board Committees,” *BoardRoom Press*, Vol. 18, No. 1, The Governance Institute, February 2007.

- Trustees are actively involved in the quality transformation process. As one trustee boldly stated, “Efforts to transform the quality of care in American hospitals require trustees to assume leadership. It is unreasonable, illogical, and irresponsible for trustees to believe that physicians will lead the quality initiatives (on their own) in their organization.”<sup>2</sup>
- Trustees, along with senior management and physician leaders, demand exceptional quality performance. They are not satisfied with performing in the top quartile or even in the top decile. They wish to be the best, recognized nationally for their exceptional performance.
- The board recognizes that a commitment to exceptional quality will transform the organization and likely be a challenging, difficult process. While some discomfort and turmoil is expected upfront, it does not discourage the organization from moving forward.
- The hospital or system utilizes one primary organizing principle for its quality initiatives. For example, some organizations select the Baldrige approach; others use IOM, IHI, or any number of other frameworks. While alternate approaches may inform their process, most top-quality institutions have learned that selecting one primary vehicle and systematically implementing that approach works best.
- The board routinely receives a concise, understandable set of quality indicators, not endless pages of incomprehensible data. The core quality indicators should emphasize performance, not simply process.
- The board establishes a reasonable but aggressive timetable for demonstrating quantum quality and safety improvements.

#### **Moving from Good to Great ...Key Components**

1. Vision
2. Destination metrics
3. Innovation
4. Quality is #1
5. Investment in people
6. Strong credit rating
7. Integrated strategic planning
8. Portfolio assessment

#### **Financial Performance**

Over the past several years, there has been a widening gap between the “haves” and “have nots” in terms of financial performance and access to capital. It goes without saying that the “haves” are better positioned to meet aggressive quality standards. Great boards demand outstanding financial performance and expect to achieve the strongest possible bond rating given the type of organization (e.g., mid-size community hospitals typically cannot achieve the same ratings as large, diversified health systems). Great boards go far beyond routine monitoring of monthly financial performance and annual budget setting. Through their finance committees, great boards:

- Set a reasonable but aggressive targeted future bond rating. Once this rating target has been established, key financial indicators are similarly developed and progress toward achieving these indicators becomes a routine part of the board’s financial monitoring.
- Integrate strategic and financial planning to ensure, rather than assume, that implementation of the strategic plan will improve the organization’s long-term viability.

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<sup>2</sup> Marren, John.P., “The Trustee’s Responsibility for Quality Care,” *Trustee*, July/August 2004.

- Allocate capital using a process that is transparent, objective, and analytically based.<sup>3</sup> The process should incorporate a set of project evaluation criteria that are applied to all projects to create a level playing field.
- Dovetail the annual strategic and capital/budgeting processes. Specifically, great boards conduct their annual retreat in the first quarter of their Fiscal Year in order to update the organization's goals and objectives. Following this retreat, the finance committee, working with senior management, establishes the capital constraint for the upcoming year as well as identifying total funds available for investment over a five-year period. These decisions, in turn, inform the annual action planning and capital budgeting process.
- Use a portfolio assessment approach for identifying business units, service lines, or delivery sites to receive priority for capital investment. Using the portfolio approach allows leaders to determine:
  - Highest priorities for capital to support growth and development.
  - Targets for improvement without sizable investment.
  - Targets for downsizing, closure or divestment to free up capital. Great boards do not wait for a crisis to identify business units or services in this category.

### Destination Metrics

High-performing hospitals with great boards see finance and quality goals as an integral part of the long-term strategic plan. While all hospitals have some sort of strategic plan, few boards can clearly and concisely articulate their hospital's long-term "destination" beyond simple platitudes. However, great boards spend time identifying a short list of desired future accomplishments/outcomes for a decade or more from now. Such "destination metrics" ensure that the hospital is not only focusing on operational excellence—improving quality, safety, and service; enhancing operating efficiency; ensuring that employees are satisfied with their work environment—but also moving toward a specific desired future state. Destination metrics should complement and dovetail with the hospital's more typical balanced scorecard and/or management dashboard.

Destination metrics, or the "vital few" long-term strategic indicators, will answer the question, "How will we know we have arrived?" To be useful, such metrics must be (simultaneously):

- Clear and meaningful
- Objective and measurable
- Representative of the organization's aggregate performance
- Limited in number (typically 2–5) and encompassing multiple attributes of performance.

It can be difficult to develop a short list of great destination metrics. Examples include targets such as: achieving zero preventable deaths, winning the Baldrige Award, being named as the top hospital in the nation for patient satisfaction, or winning the AHA's Foster McGaw Award for Excellence in Community Service. Broad-based indicators such as these examples encompass a panoply of smaller accomplishments and successes. By setting the bar high and establishing clear, long-term objectives, boards can move their organizations, over time, from good to great.

Great boards expect excellence and demand high performance from themselves, management, and physician leaders. They are intricately involved in establishing the organization's long-term vision along with a set of destination metrics that concisely articulate the hospital's desired positioning in ten years. Great boards demand innovation in all aspects of performance, especially in quality. Such boards view quality as a primary focus, as important as their role in overseeing financial performance. Great boards support ongoing investment in people, including formal leadership development for board members, managers, physician leaders, and staff. Great boards

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<sup>3</sup> Jennings, Marian C., "Too Many Projects, Not Enough Capital." *E-Briefings*, Vol. 4, No. 2, The Governance Institute, March 2007.

are associated with hospitals characterized by strong and improving credit ratings, built upon an integrated and financial planning process and consistent financial discipline.