

Performance Management in Healthcare Organizations: Concept and Practicum

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Abstract Organizational performance can create and sustain competitive advantages for corporations and even improve their sustainability and future prospects. Health care organizations present a sector where performance management is structured by multiple dimensions. The scope of this study is to analyze the issue of performance management in healthcare organizations and specifically the implementation of the Balanced Scorecard (BSC) methodology on organizations providing health services. The study provides a discussion on the BSC development process, the steps that management has to take in order to prepare the implementation of the BSC and finally discusses a practical example of a scorecard with specific strategic goals and performance indicators. Managers of healthcare organizations and specifically those providing services to the elderly and the general population could use the propositions of the study as a roadmap for processing, analyzing, evaluating and implementing the balanced scorecard approach in their organizations' daily operations. BSC methodology can give an advantage in terms of enhanced stakeholder management and preservation within a highly volatile and competitive economic environment.

Keywords Performance management • Balanced scorecard • Healthcare organizations • Performance measurement • Health system

1 Introduction

Organizational performance has gained significant interest from both academics and practitioners, since it can create and sustain competitive advantages for corporations and even improve their sustainability and future prospects [1, 2]. Despite the fact that performance management was initially developed for profit organizations, it was soon adopted by several not-for-profit organizations including public organizations such as municipalities, hospitals, universities

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and other forms of public organizations. The reason for the implementation of performance management mechanisms on the public services sector was the fact that organizational success is a multi-dimensional concept that the classic financial performance measures could not grasp [3].

Health care organizations present a sector where performance management is structured by multiple dimensions since they have many stakeholders with conflicting or overlapping interests [3]. Practically there is a separation between the consumers of the health services (patients), the ones who pay the services (taxpayers) and the providers of the services (hospitals etc.) [3]. Moreover, health care organizations face an even greater pressure to implement effective management tools nowadays since the state's budgets have been significantly diminishing creating serious hurdles to health care organizations on their daily operations [4]. Consequently, the implementation of performance management mechanisms on health care organizations can provide significant assistance on tracking non-value creating activities, control expenses and enhance the efficient utilization of scarce resources.

The balanced scorecard methodology is a performance management system that has been implemented by several public organizations worldwide [5–7]. The balanced scorecard is focused on the effective performance measurement and the evaluation of successful implementation of organization's strategy through balancing financial and non-financial aspects of the organization [4, 8–10]. Several public organizations have employed the balanced scorecard and achieved an improvement on their daily operations, performance and sustainability. An increased number of researchers provide evidence on the above-mentioned argument in the healthcare sector [11, 12]. Application of the balanced scorecard on health care organizations in UK, Sweden, Greece and Canada have provided significant results on the improvement of financial performance, customer satisfaction and the creation of health equity across a national system of health services [3, 4, 13].

Under this framework the scope of this study is to propose specific steps that need to be taken for the preparation of the BSC methodology and to propose an indicative scorecard on a healthcare organization, based on previous studies on the field. Also our goal is to derive useful policy implications for health managers and public authorities for improving health services. The rest of the study is organized as follows: The second section describes in brief the various financial and non-financial performance measures evidenced in the literature. The third section describes the necessary steps for the preparation of the balanced scorecard and provides an indicative scorecard with strategic goals and performance indicators. The fourth section concludes the papers offering useful policy implications.

2 Performance Management Mechanisms

Previous studies have examined the effectiveness of financial and non-financial performance measures, in an effort to provide evidence on the appropriateness of these two categories in specific sectors and strategic contents. Several academics have

argued that the traditional performance mechanisms are narrow and short-term oriented, while on the contrary non-financial performance measures incorporate strategic priorities such as customer-focus, improvement of processes and are more flexible to business environment changes and adapt effectively to corporate needs and thus can provide significant strategic advantages to the organization [14]. Under this framework, several quality management tools have been developed for supporting the decision making process within organizations [15]. Those mechanisms include the business excellence model, Investor in People, benchmarking, balanced scorecard, ISO 9000 and charter mark. In accordance, the “performance prism” is a model adopting a stakeholder view of performance measurement [15] and has indicated that the application of the performance prism in a British charity assisted managers to identify the main drivers of performance in line with stakeholders needs [16].

Moreover, additional performance management frameworks are the integrated reporting framework (IR) which main focus is on value creation over time and can be utilized by non-profit organizations and the Business Process Re-Engineering method which was implemented by a public hospital in Sweden [17] with positive performance results. In addition, the Skandia navigator is another performance management mechanism with the scope to create business value and competitive advantage through the improvement of human capital, intangible assets and other organizational abilities [18]. However, the most famous model for non-financial performance management is the balanced scorecard [6, 7]. The balanced scorecard (BSC) has an advantage related to the previously mentioned methods which allow organizations to assess both their financial and non-financial performances under four main pillars that are structurally connected.

The BSC approach has been incorporated in day-to-day operation of many public and non-for-profit organizations during the last two decades and the main reasons for this shift are the new perspective of the state on strategic management and sustainability, the constrained resources towards public organizations and the increased demand for accountability on behalf of the stakeholders. The reason for the appropriateness of the BSC method for health organizations is the fact that it simultaneously links financial performance measures with customer focus, the improvement of internal processes and the enhancement of innovation and learning. Consequently, the present study aims to provide a significant assistance to managers in the process of the BSC development and implementation.

3 Building the BSC Methodology

The development process of BSC can be performed within seven basic steps. At first, the board of the organization may decide to create a preparation committee including a relative small number of employees (three to five if appropriate in order to facilitate communication and coherence among the team) and their main duty will be to take the necessary actions in order to facilitate the implementation of BSC method. In order to assist the committee's member achieving the required goal, they

must receive additional training on the BSC and to do so they must participate in seminars related to performance management and BSC implementation in particular. Since the effective implementation of the BSC method is proper training this step can be the cornerstone for success and has to be taken into serious consideration.

The next step is to determine the organization's mission, philosophy, strategic goals and perform a SWAT analysis. These details can form the raw material for the creation of the BSC, and further assist on the determination of the performance criteria and indicators in each pillar. On this stage the collection of appropriate data is another significant step towards BSC success. Data elements must include details on patient and caregiver characteristics (client income, level of disability, demographic information, current living situation etc), health care coverage (ability to cover local demand), relations with suppliers and partners (public insurance funds, private health care organizations and other institutions), long-term financial viability (operating performance, solvency) and change and innovation (innovative medical services, ability to adapt to changes etc.) [4, 13].

The following step is to set specific and clear objectives and ensure continuous connection of these objectives with the performance measurement indicators that have been set in the previous step. The sixth step is to integrate the BSC process in all divisions of the health organization. On this step we have to keep in mind that flexibility could be a significant ally on effective implementation of the BSC method. This means that each department must have the ability to modify the BSC goals and indicators based on their distinctive features but the departments' goals must be aligned with the organization's general strategic plan. The final steps included the collection and analysis of performance results (after the implementation of the BSC) and this feedback can help towards the formulation and implementation of future strategies in the organization. Finally, a periodic review for the appropriateness of the selected performance metrics is needed in order to adjust the performance indicators towards the goals if it is deemed necessary.

Based on the above discussion, the basic pillars of the scorecard refer to the growth improvement, innovation and customer loyalty and retention as the key elements of a scorecard within a health service organization. Those pillars include financial and non-financial performance indicators on specific strategic goals. Additionally, the scorecard perspectives (pillars) in a health service organization must include performance indicators regarding the return on taxpayer's utilization of resources, cost savings, (productivity of personnel etc.), the quality of the services (customer perspective), the improvement of internal management processes and the incorporation of improvements, innovations and new technologies (learning and growth perspective) [4]. Therefore, a potential balanced scorecard of a health care organization can take the following form as depicted in Table 1.

The financial objectives of the scorecard are focused on the financial performance and long-term viability of the organization [4]. Specifically the balanced scorecard can included strategic goals regarding the enhancement of revenues, the control of expenses within budgetary constraints which is more crucial for the health organizations of the public sector where resources are even scarcer and the settlement of debt obligations within acceptable levels. Regarding the customer perspective, the

Table 1 Balance scorecard for a health care organization

Perspective	Strategic goals	Performance indicators	Explanation/definition
Financial	Increase Revenue	Operating revenues/assets ratio Net profit margin = net income/revenues	Indicates circulation of assets and efficient utilization Measures operating efficiency
	Control expenses within the initial budget	Break—even result Operating expenses/operating revenues ratio	Balancing revenues and expenses especially for public health care organizations Measures managerial efficiency
	Control of debt obligations Quality of services	Debt ratio At least 80% of our customers to be satisfied from services and facilities Number of patient complaints Waiting time	Measures the organization's leverage and viability Number of satisfied customers based on questionnaire answers on detailed dimensions Extracted from the questionnaire or a day-to-day inspection Diagnostics and not hospitalized patients
Customer	Effectiveness of services	Hospitalization duration Cases transferred to other hospitals	Average days of days a patient is hospitalized Cases where the hospitals' know-how was not sufficient for treatment
	Employee loyalty and satisfaction	Employee satisfaction index	Number of satisfied employees of all sectors based on questionnaire answers on detailed dimensions
	Resource utilization Staff training and education	Employee absenteeism Bed occupancy ratio Percentage of employees in training programs & conferences	Number of employees that deliberately are absent from work Percentage of occupancy on hospital beds or emergency rooms For administrative, nursing and medical staff
Learning and Growth	Technological innovations	Amounts invested in new technologies	Investments and purchase of new technologies as a percent of total budget
	New treatments	Number of new treatments introduced in the organization	Continues testing and evaluation of new treatments and procedures
	Cooperation with the society	Projects with other organizations	Number of collaborations with universities, research centers, pharmaceutical companies etc.

balanced scorecard sets objectives regarding the quality of the services provided to the public and the effectiveness of those services including the satisfaction of the patients, the waiting time for both hospitalized and mainly non-hospitalized customers, the duration of hospitalization and the number of cases needed to be transferred to other hospitals due to lack of the required know-how. These strategic goals are strongly related to the main objectives of the health organization and are also closely linked to the financial perspective of the scorecard. For instance customer satisfaction is closely related to bed occupation and this fact contributes to enhanced revenues and improved facilities utilization. Therefore, all pillars of the scorecard are interlinked suggesting that focusing on one or two pillars and neglecting others will not contribute to the overall success of the organization.

Moreover, the internal processes pillar is focused on the employee satisfaction and resource utilization. In the service sector, employees are the key mechanism for achieving strategic goals and implementing performance measurement models, since they actually affect almost all pillars of the BSC [19, 20]. This pillar focuses on employees' absenteeism and satisfaction as the main drivers of services quality. Also includes performance indicators on bed occupancy as an indication of resources utilization. These two strategic goals are closely connected to the quality of the services and cost control of the organization. Finally, the last pillar is dedicated to the learning and growth. This pillar focuses on the continuous training and development of staff (administrative, nursing and medical) by allowing them to participate in seminars, conferences and educational programs. Also includes indicators on the introduction and investment in new technologies, treatments and innovations and collaborations with third parties. The success on the strategic goals of this pillar will contribute to the future sustainability of the organization.

A projection of the potential benefits of BSC implementation would be the control of expenses within budgetary constraints and an increase of revenues and at the same time achieve high levels of customer satisfaction from health services and improving internal operations. The most important outcome from this procedure is that the management of health organizations may gain significant insight on how their most important stakeholder (patients-customers) perceive the quality of services and infrastructure and even highlights areas for potential improvement. For instance, a customer satisfaction survey may be carried out for specific health services indicating the level of satisfaction rate. This outcome will point that the BSC method is a useful performance tool for health organizations and contributes towards success in various levels (financial, organizational and customer satisfaction).

In addition, staff will improve its skills and abilities by participating in training seminars which will have a significant impact on both the quality of health services and improvement of the internal operations. In general, the implementation of the balanced scorecard on a health care organization may set the basis for an effective performance management of the industry which can enhance its future sustainability. This fact may corroborate arguments that in the services sector, employees are the key mechanism for success since they actually affect almost all pillars of the BSC [21, 22].

4 Concluding Remarks

Modern health organizations have been developed in multileveled organizations facing significant pressures from several stakeholders like the state, patients, etc. In addition, the establishment of a managerial performance system within public health organizations, (which could satisfy the needs of citizens and other state authorities), is even more important today in order to sustain an adequate level of service quality. Especially in Greece (and other states with significant financial problems), public health organizations operate within a volatile financial environment yielding more pressure on managers to balance financial outcomes while at the same time sustain and even improve the quality of health services within budgetary constraints. Consequently, public health organizations (and even private health organizations) need to advance their thinking and strategic planning from a plain administrative process towards a responsible performance-based management approach.

The scope of this study is to demonstrate the process of the development of the most popular performance management approach, the balanced scorecard, within a health service organization. Despite the fact that some of those goals and performance indicators are developed for the public health organizations, the same principles could be applied for private (for-profit) health organizations. Managers of private and public health organizations could use the propositions of the study as a roadmap for discussing, analyzing, evaluating and implementing the balanced scorecard approach in the organizations' day-to-day operations. Additionally, the specifics of the BSC development process could be proved useful for managers regarding the steps and actions that they should take in order to prepare and implement the scorecard. Moreover, the strategic goals and performance indicators presented in Table 1 can also be used as a guide for setting relative goals and metrics for health organizations that wish to implement the BSC method or any other performance management methodology.

The organization's staff is the most significant factor for the successful application of a performance-based management methodology and requires further training and devotion towards this goal. The main reasons for the unsuccessful implementation of the BSC are the lack of dedication on behalf of the senior management team and inadequate training of the staff. The present study can provide the motivation for managers to steadily incorporate the BSC method in those health care organizations that their budgets are mainly funded by the state. Good preparation, education and training are very important for the implementation of BSC but the key is dedication towards performance management philosophy. This methodology can definitely give an advantage on these organizations in terms of enhanced stakeholder management and preservation within a highly volatile and competitive economic environment [4].

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