Using Balanced Scorecard as performance measurement system at private hospitals: making everybody happy, while taking care of the bottom line!

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ABSTRACT

This paper discusses the importance of using the performance measurement system in the private hospitals environment. Comparison of the various perspectives and types of performance measurement system to the healthcare industry were made with the objective of selecting the most appropriate one for the healthcare industry. Special focus on the Balanced Scorecard is mentioned with the advantages and disadvantages spelt out strongly.

KEYWORDS:

The success story so far

Table 1: US Hospitals using Balanced Scorecard as performance measurement system

<table>
<thead>
<tr>
<th>Name of hospital</th>
<th>Problems</th>
<th>Initiatives</th>
<th>Benefits and improvement</th>
</tr>
</thead>
</table>
| Duke Children’s Hospital, US (Melioness,2000) | • USD $50 million loss in 1995  
• 15% stay of patients are over target | • Better communication with patients and physicians  
• Patients focused process improvement | • Costs reductions  
• Revenue enhancements  
• Better patients care |
<table>
<thead>
<tr>
<th>Hospital, Location</th>
<th>Increase healthcare cost has changed government funding</th>
<th>Accountability</th>
<th>Patient satisfaction level increased from 89% to 95%</th>
<th>Staff satisfaction survey participation level rose from 33% to 75%.</th>
<th>Better understanding on where to invest time and money in learning where objectives has been achieved</th>
<th>Achieve ability to relate vision and mission statements to business performance measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peel Memorial Hospital, Ontario</td>
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<tr>
<td>Harber, 1998</td>
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<td>MacKay Memorial Hospital, Taiwan</td>
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<tr>
<td>Wen-Cheng Chang et al., 2008</td>
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</table>
patients (those with economic, social or physical disabilities) increased from 82,350 to 97,658 visits.

• The number of research projects also increased from 46 to 61 projects.
• The percentage of patients admitted to an intensive care unit in less than 3 hours from arrival in the emergency department increased from 47.8% in 2004 to 82.5% in 2005

Source: this research

INTRODUCTION

Kaplan and Norton (1996b, 2001c) have proposed the use of Balanced Scorecard as a tool for performance measurement and strategic management tool to business organizations for more than a decade. Demand for accountability by providers and healthcare organizations, in addition to desires to evaluate overall how well the healthcare system is performing, have resulted in increases in quality measurements in healthcare.

Why performance measurement system in healthcare is important?
Langley et al. (1996) reiterates that successful quality improvement efforts are the result of understanding the system and how elements work together. Identify high leverage areas within the system to change. Implementing the changes and measuring the progress to know if the change is an improvement.

Radnor and Lovell (2003) outlined the need for performance management systems in health care. They noted that most of the “successful organizations within the market-based economy use performance measurement systems either because they are compelled by stakeholders’ interests to produce information to indicate performance levels achieved, or to embrace a particular system to generate continuous customer- based market driven improvements” (para. 4). In this, they supported the argument of Mountzoglou et al. (2000) in which databases on customers satisfaction proved to be associated with improvement in hospital performance.

Rubin, Pronovost, and Diette (2001) considered the use of quality measures essential for health care organizations to evaluate their services. They posited that it triggers quality improvement program. They explained that it is also essential for the purchasers and patient in making informed decision making and for accreditation and regulating bodies to monitor the performance of the organizations.

Stewart and Locamy (2001) observed that health care performance measurement systems should not be restricted to administrative functions. They supported Castaneda-Mendez’s (1999) observations that health care organizations need to implement measures of business, patients, and employee value, which also emphasized by Sheingold and Lied (2000) who specifically mentioned patients, health care providers, and purchasers. The fact that health care organizations are dependent on their stakeholders highlights the
importance of measuring their performance from different stakeholders’ perspectives. Donabien (1985, as cited in Kerseens, Groenewegen, Sixma, Boerma, and van der Eijk, 2004) defined quality as “the degree to which health services meet the needs, expectations, and standards of care of the patients, their families, and other beneficiaries of care” (pp. 106-107). In their criticism of many independent evaluative processes used in health care organizations, Sheingold and Lied (2001) observed that although much effort was put into developing and collecting quality measures, very little was known about the use of these measures to reflect the quality of performance of services from different stakeholders’ perspectives. For this reasons, Kanji and Sa (2003) opined that various health care stakeholders’ perspectives and priorities must be considered while conducting performance measurement. This supported Counte and Meurer’s (2001) recommendations in this regard.

Kerssens et al. (2004) stressed that the difference in criteria on which patient and other health care providers based their evaluation of the quality care. Accordingly, they held that it was essential to differentiate the measure of quality care according to each perspective’s criteria.

Although many studies in the literature considered on one stakeholders’ perspective in measuring performance (Cheng, Yang and Chiang, 2003; Kerssens et al., 2004; Valenstein et al., 2004) or one category within a single stakeholder (Laschinger, Wong, McMahon, and Kaufmann, 2001; Sluijs and Wagner, 2003), many scholars have been concerned with the bias that could be generated in this process. Countr and Meurer (2001) recognized the high potential for a single respondents’ bias. They observed that very little information is gathered across types of employees in order to avoid bias, supported this notion.
The general view on the current performance measurement system in healthcare

The health care industry has been emphasizing too much on the financial measures of performance in response to cost pressures which may lead to a dangerous impediment to creating future economics value (Weber, 2001). Given the inherent limitations of financial measures (they reflect historical performance, are highly aggregated, and may lead to a short term bias), many companies have sought to supplement financial measures with non financial measures (Kaplan and Norton, 2001b). Non financial measures are designed to capture the operating effects of managerial decisions that will, eventually, influence financial results (Westbrook et. al, 2000).

For centuries, the definition, measurement and improvement of quality in health care has been an issue of primary importance (Roberts, 1987). The concept of quality in health care has developed from a purely technical approach to a multi-faceted issue (Donabedian, 1987) which now tries to satisfy the needs, interests and demands of three principal interest groups (Øvretveit, 1992). These parties have been described as being those who provide the service (i.e. the health care professions), those who manage it, and those who use it (i.e. patients). Morgan and Everett (1990) suggested a fourth interested party, namely those who commission the service, the purchasers, resource allocators and policy makers. Each group has its own specific and different interests and opinions on the definition, measurement and improvement of hospital service quality. Studies in the literature recommended future research using different stakeholders’ perspective in the evaluation of quality of health care services. Grimmer et al. (1999) provided insights into differences in stakeholders’ expectations in their study, but they acknowledged the response bias in the samples they used, particularly in relation to the low response rate,
where no information was available on non respondents. They recommended further research to explore the subject in more depth.

Leatherman (2001) posited that in spite of the achieved improvement, performance measurement is still in the initial stages. She added that their effect on change toward better quality services and the conditions under which they can be efficiently used were not yet clear. She recommended future studies so that credible and accurate assessments could be made.

Stewart and Locamy (2001) observed that health care performance measurement systems should not be restricted to administrative functions. This supported Castaneda Mendez’s observations that health care organizations need to implement measures of business, patient, and employee value, which was also emphasized by Sheingold and Lied (2001), who specifically mentioned patients, health care providers, and purchasers.

Valenstein et al. (2004) concluded in their study on 1,094 front-line health care providers that conscientious consideration of the views of health care providers is necessary to ensure successful quality-monitoring programs

**Comparing Balanced Scorecard and other performance measurement system**

Inamdar, Kaplan, Reynolds (2002) commented that most measurement system serves a narrow regulatory, clinical, or diagnostic function. There are not constructed to tell the story of an organisation’s strategy and guide its implementation. Other measurement systems do not offer timeliness and forward-looking indicators of Balanced Scorecard. The cause and effect linkages of the Balanced Scorecard capture the complexity and relationships of the strategy, facilitating explicit trade offs among cost, quality and
access. Many of the other measurement systems complement the Balanced Scorecard by guiding operational and process improvement.

**Comparing between Balanced Scorecard and other hospital performance measurement system**

**Table 2: Major healthcare measurement system in the US**

<table>
<thead>
<tr>
<th>Name &amp; descriptions</th>
<th>Primary function</th>
<th>Uses</th>
<th>Developed for</th>
<th>Developed by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oryx</td>
<td>Accountability</td>
<td>Measures to evaluate and report on performance of hospitals and other healthcare organizations</td>
<td>Hospitals and other healthcare organizations</td>
<td>Joint Commission on Accreditation of healthcare organization</td>
</tr>
<tr>
<td>FACCT</td>
<td>Accountability Selection</td>
<td>Quality measures to help consumers evaluate the quality of the healthcare they received</td>
<td>Consumers of healthcare</td>
<td>FACCT – national organisation whose mission is to improve healthcare in the US</td>
</tr>
<tr>
<td>CAHPS- consumer assessments of health plans study</td>
<td>Selection</td>
<td>Measures of consumers’ satisfaction with the healthcare services they receive</td>
<td>Consumers of healthcare</td>
<td>AHCPR- US Agency for healthcare policy and research</td>
</tr>
<tr>
<td>Conquest</td>
<td>Selection</td>
<td>Clinical performance measures; quality and appropriateness of healthcare services</td>
<td>Consumers of healthcare</td>
<td>Harvard developed from input by public and private organizations, funded by AHCPR-US Agency for healthcare policy and research</td>
</tr>
<tr>
<td>Healthy People</td>
<td>improvement</td>
<td>Measures to</td>
<td>American</td>
<td>US dept. of</td>
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</table>
Interviews with healthcare executives in nine provider organizations that have implemented the Balanced Scorecard revealed contrasting differences in their perceptions of performance measurement systems under the Balanced Scorecard versus HEDIS or ORYX (Inamdar et al., 2002). The interview stated that most performance measurement systems serve a narrow purpose and failed to explain or to help manage an organization strategy for achieving its aim. HEDIS and ORYX often do not provide opportunities to establish forward-looking indicators and they also failed to inform about the complex interrelationship of strategies across various levels of organizations by ignoring cause-and-effect linkages.

They also mentioned that Balanced Scorecard and its four perspectives force them to think about the cause-and-effect logic. Balanced Scorecard linked strategy with resource allocation and supported greater accountability and demonstrate how one’s performance of job activities was clearly linked to the organization’s strategic objectives and vision. Balanced Scorecard help to create knowledge workers that together developed a learning organization. Inamdar et al. (2002) concluded that continuous quality improvement strategies resulted from this convergence of organization values and strategies.

CONCLUSION

The importance of having a well-rounded performance measurement system at healthcare organizations such as hospitals cannot be denied. A well-rounded and holistic
performance measurement system that includes everything that matters to the hospital management is highly recommended so that, they will be able to measure the effectiveness of strategies, implementations and outcome be it to the staff, business processes, customer satisfaction and financial performance.

REFERENCES


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