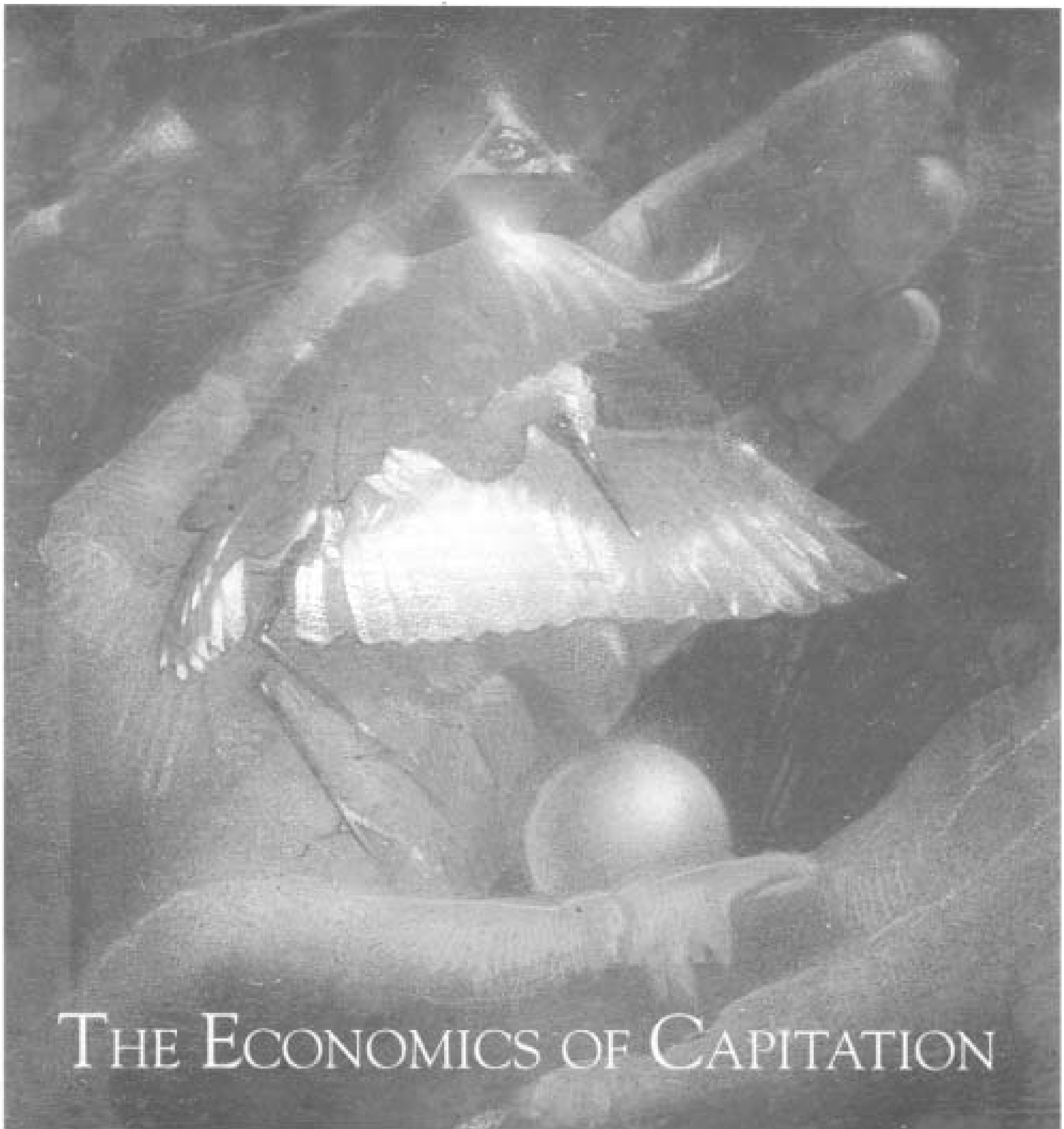

"THIS IS TOUGH!" Dr. Safir had faced challenges in the work place before, but nothing like the ones brought upon him since being named his practice's Medical Director. Sitting in the reflective aftermath of a long and laborious dinner with his operating committee (comprised of service chiefs from the 220 doctor Well Care Medical Group), Alan Safir, M.D., turned his thoughts to the problems at hand.

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DEC E M B E R / 1994

He was serving a three year term as the group's Medical Director, and simply, he was worn out. As the practice of medicine was his real love, he'd never really wanted the directorship. But the group wanted him, so reluctantly, he had agreed to serve. He continued to see patients on a part time basis, but was barely enduring his "dual career" of physician-manager. To say the least, his enthusiasm was on the wane. The heat was on, and sometimes, the challenges were overwhelming.

Dr. Safir had come to see that his initial reluctance to assume a managerial position was not unfounded. He had been unable to predict the endless debates and long winded conflicts over policy, finance and business performance issues. Operating Committee meetings generated what seemed to be continuous waves of helplessness, but little or no shelter from the storm in the form of long range solutions. Everyone had an opinion, of which no two were the same. There was little data on which to base decisions and change was nowhere in sight. As he sat in post miasmic reflection, Dr. Safir came to see his own and his practice's situation as serious. The meeting's agenda had presented real time, life threatening issues which demanded Dr. Safir's immediate response.

Ominous in its primacy was the contract Well Care had lost from Vanguard Insurance. It had been ten years since Well Care first bid on Vanguard's capitation contracts and now the insurer was moving its business to one of the group's direct competitors. Vanguard had provided too few and very vague clues as well as little insight into their reasoning behind this financially damaging decision. However, Dr. Safir knew that his competitor, Physician Partners, had underbid Well Care. He was also keenly aware of the fact that patient service complaints and a poor customer service audit had adversely affected Well Care's relationship with Vanguard and factored heavily in the loss of the fiscally crucial client. In addition, as a medical doctor whose true passion was the practice of medicine, he felt a deep and profoundly personal sense of responsibility and accountability for the quality of medical treatment and professional services rendered to any individual by Well Care.

Vanguard had accounted for 8% of Well Care's patient flow, and since their members tended to be "light" users of services, the effect of their loss on profits had been more than expected from their seemingly low percentile figure. Most pragmatic for the group, Vanguard's defection precipitated a comprehensive rebudgeting for the upcoming year. This unwelcomed economic overhaul catalyzed the cancellation of staffwide pay hikes for the second year in a row. As morale declined, dissatisfaction was on the rise. The noise level, particularly among the bright new doctors, was escalating to a din and rattling with impending doom.

Dr. Safir's exposure to adversity began again the very next day. At an early breakfast meeting with the new family practice "does", dialogue accurately mapped real problems without forecast-

QFD MATRIX

HOW: Design Feature

Central phone answering for appointments
Board certification and patient-friendly selection of
Experience criteria for hiring receptions

WHAT:
Customers Requirement

These are "voice of the customer" - an agreed to list - with priorities what customers want in their medical services. Example:

- Prompt phone answering
- "Caring" doctors
- Courteous reception

Correlation Matrix

Which design features meet which customer requirement. In this case the customer requirement for "prompt phone answering" is met by the design of the central phone answering service. The correlation matrix indicated which design features meet which customer requirement. Sometimes, there are none, meaning the customer is not being satisfied at all.

WHY:
Competitive Assessment

Competitor comparison (for each customer requirement). This is often done by relative ranking on a scale of 1 to 5. Information comes from customer interview, focus group, or sampling. For example: the phone response comparison below indicates Physician Partner does a better job:

- Well Care 3
- Physician Care 5

How Much

Reduce phone delay by half. This is the goal to be reached for service improvement. It is the result of the analysis. The next step is to design a phone answering .service that meets the goal.

FIGURE 1

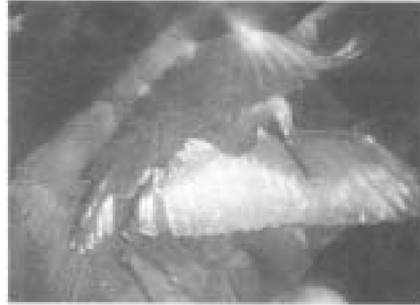
ing any solutions. Over coffee, the group's family practitioners lamented and expressed the belief that they carried most of the patient load without proper pay or appropriate status within the group. Their resentment was pointedly aimed at the group's older and more senior specialists who were better paid and, in addition, ran the business. Like the meeting of the nigh before, the encounter was cause for reflection. This time, as he sat quietly, Dr. Safir noted that the complaints raised by the family practice doctors were not only valid, but their flames were fanned by the fact that as a group, they had no representation on the operating committee.

Over the coffee and croissants, Julia Newly, Well Care's hard-working clinic administrator, reported on staff turnover. Well Care's large support staff and resultant high support-to-physician ratio of 3.5 to 1 was due to the fact that the medical group operated its own clinics. And by doing so, the P.C. carried the logistical responsibility of a not only large, but diverse group of support personnel that included clerical workers, nurse practitioners, optometrists, maintenance engineers, and many others from a variety of vocations.

However, Julia's support staff turnover report indicated Well Care had real trouble keeping its support staff happy and content. On the average, a support employee stayed with the group a mere two years. Surprisingly, compensation wasn't the main problem and low pay was not the main complaint; overwork was the most frequent reason for departure. Ms. Newly's report substantially supported the claim that as far as Well Care's support troops were concerned, all work oriented things simply did not flow correctly, if at all. Her summarizing comment was succinct and direct, "We need to work smarter, not harder."

As healthcare faces its comprehensive task of self reinvention from within and without, the case of Alan Safir, M.D. and Well Care is bound to be repeated. Forward-thinking assessments done in a spirit most accurately described as proactive shall empower the healthcare provider to best utilize a most powerful diagnostic and therapeutic business tool - self-capitation.

Acceptance of the inevitability of these tremors, not so gentle in nature, is key to the self-capitation tool box, because Capitation, in particular, is perhaps



Many medical groups choose not to define "excellence" let alone measure it.

the most strongest of what is best described as these "medico-physical" shocks and after-shocks.

Unlike geophysical changes, many of the upcoming changes that will affect the survivability of healthcare practices can be pragmatically forecasted and accurately predicted. In this light, Lawrence P. Benson, of the consulting firm AMX International, predicts that to remain competitive, healthcare providers must drop costs twenty percent (20%). To many in our industry, this news has an ominous tone because it carries with it the weight of fundamental change.

For the agile and adaptive leaders in the medical business world, this is not bad at all. First and foremost, change creates new opportunities that in a static environment may go unpresented and therefore unexplored. Second, managers in other industries have successfully dealt with changes of equal and even greater magnitude. Their tool kit contains techniques that can be used as effectively in our rapidly changing healthcare environment. Let's look at some of these tools through Dr. Safir's eyes. This first person perspective can help not only Dr. Safir and Well Care, but you and your facility or practice to respond proactively and best utilize capitative change in our ever-evolving healthcare business arena.

Let's look inside the 21st century business tool kit for some of the basic implements found and to see how they can he used to facilitate healthy self-capitation and other positive, forward-thinking changes for your medical business practices.

VOICE OF THE CUSTOMER:
QUALITY FUNCTION DEPLOYMENT (QFD)

Dr. Safir's most pressing problem was competition. Well Care was operating in an intensely competitive environment; simply, it was a dangerous place where "pet" theories and unsupported opinions like those offered by his operating committee just were not sound enough to form the basis for effective and decisive operational business decisions.

Like many medical leaders and managers, Dr. Safir can make use of practices, techniques and tools found outside healthcare to best facilitate the refinement of pre-existing business practices. Additionally, the proactive formulation of new ones can be found in order to affect an overall "streamlining" of a medical operation into the mainstream of, for lack of a better phrase, the world of global commerce.

For example, many manufacturing concerns make use of an evaluation process called Quality Function Deployment (QFD) to arrange, quantify and confirm assumptions about their product design and service performance. Several companies offer software packages that apply the QFD evaluation concept. Included in this list of QFD provider companies are IBM, American Supplier Institute in Detroit and International Technegroup (ITI) out of Cincinnati, Ohio.

To begin our exploration of QFD concepts, principles and practices, let's turn first to Figure 1. This table presents a matrix who's left side is entitled WHAT: CUSTOMER REQUIREMENTS. These "WHAT'S" are product attributes that customers value most, listed by priority. For instance, in healthcare, customers seem to place most value on technical quality of the care provided, though quite often this is considered equal at all facilities and thus taken for granted. Patients (read "healthcare customers") can judge bedside manner, prompt answering of phones and qualities that fall in the realm of human interaction like the degree of courtesy extended to them by a receptionist.

Crowning the top of Figure 1 is the QFD matrix's "How" block. It describes the features of the product or service that fulfill customer expectations. Remember, these expectations can be found in the matrix's "WHAT" section. For example, a central phone service may make physician's appointments, so that service would be designated a "HOW". As a quantifier, there appears at the matrix's bottom the "HOW MUCH" block. In this instance, response times and/or appointment waiting times are examples of relevant quantifying information appearing in the "HOW MUCH" block.

Completing the QFD matrix at the far right is a column entitled "WHY". Because this integral matrix part offers competitive assessment, it is of prime importance. The "WHY" category captures just how your enterprise compares with its competition. Basically, it offers assessment information, both internal (about your own business), and external (concerning your competitors' businesses) critical to your survival and success in the marketplace. This "WHY" block contains a very important implement of your business tool kit and can be viewed as a performance calibrator.

Like Dr. Safir and Well Care, you can use it to objectively assess your company's position in your marketplace. Are you ahead or behind? How much ahead? How far behind? If your practice or facility is behind, you can use the QFD Matrix to identify the parts or areas of your operation that need improving changes.

Based on his use of the QFD Matrix, Dr. Safir assessed that Well Care members had a difficult time reaching the practice's appointment center. Obviously, this fact played heavily in the lack of patient satisfaction reported by Vanguard. And based on the primacy of "prompt telephone answering" in the matrix's WHAT block, he knew that this difficulty was critically adverse to Well Care and therefore integral in the group's Vanguard contract loss. By calling Physician Partners, Dr. Safir made a quick and accurate comparison that confirmed his assessment. He formulated a "telephone appointment efficiency scale" on which he ranked Physician Partners as a "5" (for a high rating) and Well Care as a "3" (indicating marginal service).

The QFD Matrix led Dr. Alan Safir to a seminal thought, "We should change the way we make appointments." His matrix-qualified introspection continued, "Maybe we need more data on the quality of our other services and how they compare with those of our competitors."

TOOLS THAT IMPROVE OPERATIONS: WORKING SMARTER NOT HARDER

For the healthcare business decision maker, there are a number of tools available that address operations. Two found to be particularly applicable look respectively at process design and performance measurement.

Continuous Flow Processes - In larger organizations like major manufacturing concerns, most processes evolve without the benefit of a conscious design effort. Many are designed or just spontaneously evolve exclusively to serve the convenience of a business's internal departments with little or no concern for customer well-being. More often than not, this leads to widespread inefficiency and customer aggravation; two obvious components in a losing equation for any healthcare business.

Regardless of the nature of a business process, be it information flow, product assembly or high touch human service, manufacturers and service companies are reengineering "Continuous Flow Processes" in a comprehensive effort to make these processes more cost-effective, time-efficient and perhaps most importantly, customer friendly. Such efforts lead to fundamental changes within the processes themselves, the organization(s) working the processes, and in transition to the digital domain, changes in information systems. Variations on the required steps most certainly exist, but most have some, if not all these major elements:

1. As-Is: Define the current process steps in detail and the process' current performance in terms of customer satisfaction, time and cost.
2. Vision: What you and your customers would like the process to be. QFD provides a performance "specification" for the process.
3. Implementation Plan: How to get there, with what resources and when. This includes a comprehensive list of changes needed in processes, systems and organization necessary to "make it happen".
4. Continuous Improvement: This forecasts future improvements necessary to hold on to and most ideally, improve on gains.

As an experiment in overall QFD application at Well Care, Dr. Alan Safir traced the steps a new member followed when joining the plan. Dr. Safir's exploration into his organization's internal workings, was to say the least, a real eye opener.

First, he found that every Well Care

ACTIVITY BASED VIEW

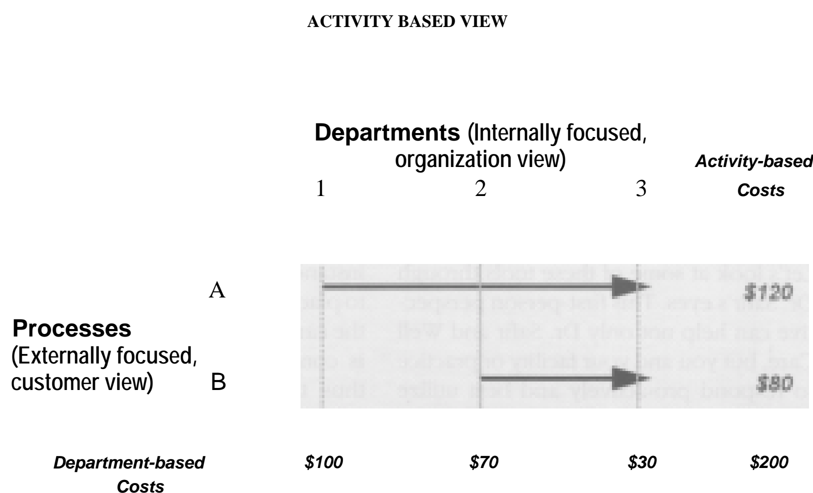


FIGURE 2

department, both medical and non-medical, had a form for the new member to complete. Calculating that almost 40,000 new members joined the plan every year, Dr. Safir then realized that this redundant practice created over 200,000 new forms annually (and the resultant extraneous expenditures) and an obviously huge extra work burden for around 80 Well Care staffers. Dr. Safir lamented, "There must be a way to make this more efficient. My staff is drowning in paperwork!"

Peer Review -- It is common knowledge that many medical groups are reluctant to rigorously evaluate individual job performance. Reasons include a natural aversion for both giving and receiving "colleague criticism" and the absence of performance standards commonly agreed upon throughout the healthcare industry. However, there are specific trends toward job performance, as represented by the FDA's highly visible and recently enacted Mammography Standards and Quality Act (MQSA). Generally speaking, many medical groups choose not to define "excellence", let alone measure it.

In instances where effort has been made to quantify and qualify excellence, measures usually contain elements of technical competence, as in, "Would I send a member of my family to this doctor?", and, "Do I like to interact with this doctor?", and finally economics -"Does this doctor practice cost effectively?" All are excellent questions that present very useful criteria, but regardless, formal procedures to measure and reward these qualities are still rare.

In the fast on the wane fee-for-service environment, the market winnows the less than competent. However, in the fast rising capitation environment, performance management systems will have to do that job. One tool available to professional partnerships for this oncoming task at hand is the peer review. It can be used to monitor staff performance quality and as a provider of individual feedback to aid self-improvement.

There are many designs for performance reviews. What follows below is one actually implemented by a medical group.

1. First, a team of doctors from the group met to develop and formulate the evaluation standard. It was common across all specialties and addressed the four areas described above: technical competence, patient satisfaction, fit with the practice and cost effectiveness.
2. The chief of staff identified five anonymous colleagues to serve on an evaluation panel for each doctor. Panel members had to be familiar with the doctor and his/her methods of practice. This did not mean that the panel members came from the reviewee's department or area of specialization.
3. Panels made their evaluations. Chief of service evaluations and self evaluations completed the picture.
4. Physicians received a "rank". This was a per-quarter annum figure - it ranked the doctor in the first, second, third or fourth percentile group. The report's results, which also listed areas of needed improvement were then reviewed by the chief of service and the subject doctor.

As the 21st century embraces our horizon, the practice of medicine will require greater reliance on evaluation tools like the Peer Review explored above. As this type of process capitalizes on its one crucial element to improve quality of physician services rendered: credibility of input from other doctors.

Still, Dr. Safir wasn't sure about peer review. He saw that it in its simplest application, it offered the advantage of paying by quality of job performance instead of by seniority or specialty, which was the current practice. He knew his family practitioners were on the low end of the group's salary scale, but he recognized that they were on the front lines in dealing with Well Care's members. Ultimately, much of the group's patient (read "client") satisfaction was in their hands. And in the same line of thinking, but with a broader purview, he was perturbed by the fact that he could hold no doctor accountable for patient satisfaction.

Dr. Safir felt that peer evaluation may be more divisive than decisive; that is, lie feared that in the aftermath of its implementation, it may divide the group and create resentment. On a deeper, more human level Dr. Safir felt that as a manager, what was he to do about and/or for the partners who ranked at the bottom? Should they be dismissed? There was the personal issue as well; he was concerned that seen in this light, some of his closest friends might not be "cutting the mustard".

FINANCIAL TOOLS: KNOW YOUR COSTS

The thrusting brunt of today's healthcare upheaval is about money. As cost reduction becomes an absolute necessity, financial management comes into its own as a key success factor. Healthcare decision-makers have much to glean from the lessons learned by managers in other disciplines. For example, managers in other industries have discovered that conventional department-oriented budgeting and financial reporting systems don't help make tough decisions. But, these responsive practices developed by other areas of commerce to counter these challenges make great tools for the 21st century medical business practitioner. First, let's look at the problems:

- Little process information. There is limited availability of cost information on a process, activity or per patient basis.
- Hard-to-measure product line performance. It is hard to tell whether to "make or buy" a service; that is, to "Do It Yourself" (D.I.Y.) inside or have it done outside. In the simplest rumination, this one uncertainty has contributed most to the over building of healthcare.
- Traditional budgeting practices make no effort to recognize and respond to the shift of risk from insurers to providers, nor do they offer any sort of cushion to adjust for this risk.

LOOKING AT THE SOLUTIONS.

Medical practices can turn to "Activity Based Costing" (ABC) to address the

RISK ADJUSTED BUDGET

Partner Draw	25%
Support Staff Salary	30%
Facilities and Overhead	10%
Supplies and Materials	10%
Risk Reserve	25%
Total	100%

FIGURE 3

first and second problems. This technique is borrowed from the manufacturing discipline and its need to understand the cost of multiple product lines made in the same plant. The third problem requires a shift in financial planning that recognizes uncertainty in revenues and costs and looks at risk adjusted budgeting for a viable solution.

Activity Based Costing (ABC). Like most processes, traditional budgets are department focused. That is, so much goes to nursing, this much is for radiology, and so forth. Figure 2 contrasts traditional and activity-based methods of accounting. The traditional approach is by department, or vertical. It is said to be internally focused because it doesn't embrace the customer's point of view. A horizontal process or activity sees business practices through the eyes of the customer, and therefore espouses from a point of view that is purely customer based. A horizontal process sees medicine like this:

- See the doctor when you're sick.
- Get a physical.
- Have an operation.
- File a claim.
- Join a health plan.
- Get an X-ray.

Enlightening? More so than you think. With an activity-based approach to costing, managers balance resources with work. In this spirit, companies use Activity Based Costing when they reengineer and institute continuous flow process improvement. In Figure 2, a redesign may result in combined departments, reassignment of process steps, or cost-cutting of the individual steps themselves.

ABC has yet another enlightening advantage: the ability to compare internal and external costs. Figure 2 shows the costs of two processes. This helps make decisions whether to buy, rather than perform certain services. This is important in the implementation of controlled staff reductions. Rather than making cuts "across the board", decisions on "outsourcing" are data-based, rational, and therefore, in the best interests of your practice.

RISK ADJUSTED BUDGETING.

Capitation brings added risk (and reward) potential to our industry. Risk rears its head in the wake of lost revenues or when costs exceed budgeted expectations. Reward works in the opposite direction. Like the success stories from other areas of commerce, it is on the backs of greater revenues and lower costs that we ride securely into the winner's circle.

There are tools for better decision making

Many professional service firms utilize the risk adjusted budget. It makes the variable bonus or profit sharing element an important part of employee compensation. If performance exceeds expectations, reward is distributed. If profit performance falls short, there is no bonus distribution. Barring the extraordinary "overrun", the future of the organization is secure. In this way, the risk adjusted budget is a multipurpose tool; it's at once a motivator and a maintenance device.

Often, the peer review process will govern the distribution of the risk reward. This creates a perfect opportunity to recognize the "best" providers. Figure 3 offers a by thenumbers breakdown of one viable way to build a risk reserve into your budget.

As a chief executive, Dr. Alan Safir, M.D., knew he lacked the necessary financial information to best manage Well Care. In addition, his operating committee could not make astute decisions with any guarantee that they were in the group's best interest. The information they had was too "high level" to identify key indicators of the operating health of their business. This would take "special studies" to identify. In the past, Dr. Safir had felt unarmed and virtually unprotected when he had tried to set priorities. Providing him with tools essential to his group's survival and success, Dr. Safir took to ABC like a welcome suit of armor. However, he was fearful of distributing monies according to peer evaluations; he felt this practice night disrupt medical group harmony and be detrimental to its overall well-being.

Dr. Safir situation is common to many in our industry. While there are no easy answers to the questions and dilemmas Dr. Safir faces, there are tools for better decision-making. Quality Function Deployment offers competitive comparisons and assessments that empower the medical imaging decision maker. Continuous Flow Processes and the Peer Review address operations via process design and performance measurement, creating the customer -- based (read patient -- based) perspective that insures optimum provider service and facilitates user loyalty. And finally, the financial tools of Activity Based Costing and Risk Adjusted Budgeting lend a much needed sense of fiscal security in these times of financial uncertainty.

Through Dr. Safir and Well Care, we have described the trade-offs leaders must choose to make when they make use of these powerful, effective tools. In light of their benefits, and with respect to what may be perceived as their barriers, these tools are integral to the 21st century healthcare manager. Because of their undeniably functional applicability, they are very valuable components in his or her tool kit and are there to be used as often and as effectively as possible. In the case of Dr. Safir and Well Care, they not only put him back in the race, they put him back in sight of the winner's circle. And like Dr. Safir, any medical imaging decision-maker can make use of them to effectively face the challenges produced by medical practice in "chrysalis" to medical business.

AR

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