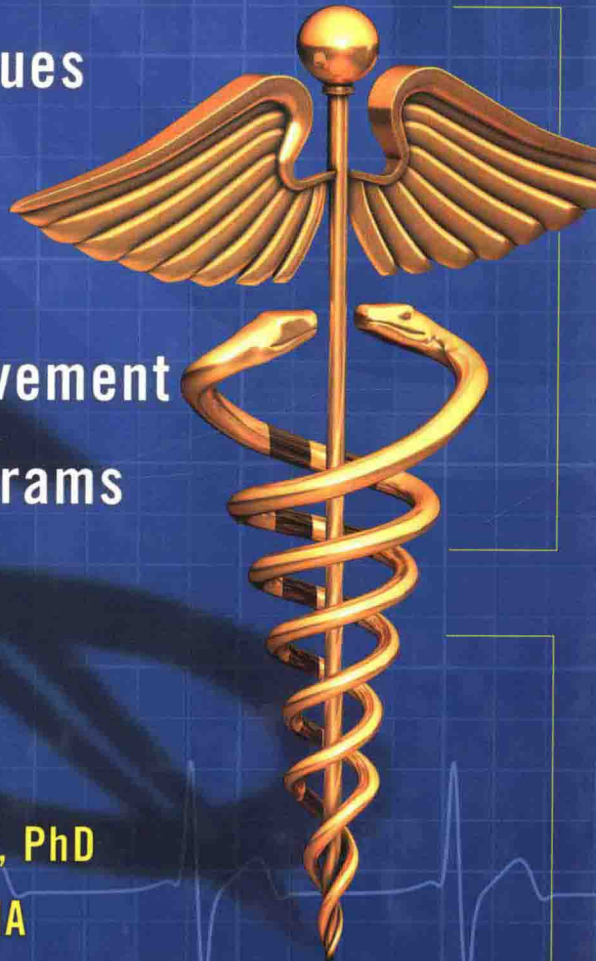


Measuring ROI in Healthcare

Tools and Techniques
to Measure the
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Projects and Programs

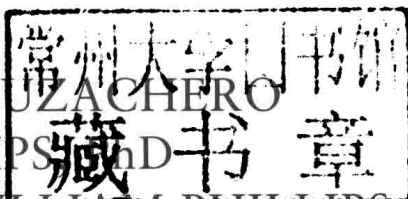
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PROJECTS AND PROGRAMS

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Measuring ROI in Healthcare

I would like to dedicate this book to my wife Nancy Buzachero.
—V.B.

*This is dedicated to our healthcare clients who are using this
methodology to transform their organizations.*
—P.P.P. and J.P.

*I dedicate this book to my parents Don and Ellen and my extended family.
Thanks for your unconditional love, kindness, and hospitality over the years.*
—Z.L.H.

Preface

Healthcare expenditures will continue to grow in the next two decades. Showing the value for the expenditures in terms that resonate with all stakeholders is imperative. Changes in payment methods from a fee for service (utilization) to a more quality-centered, pay-for-performance product will reward providers that show improvement in quality and efficiency. Centers for Medicare and Medicaid Services (CMS) and others will likely award contracts and favorable revenue arrangements to providers that demonstrate value via the outcomes. All healthcare systems are working toward building internal systems that not only deliver better outcomes but also prove them.

Executives are now asking for the return on investment (ROI) on major healthcare projects in technology, quality, patient satisfaction, procurement, process improvement, case management, staffing, compliance, innovation, marketing, and other functional areas. Using the method outlined in this book, you will be able to deliver the ROI in a credible, reliable way.

THE NEED FOR THIS BOOK

The ability to connect the dots and show bottom-line accountability while maintaining quality and efficiencies will be the key to survival in the healthcare industry. When the measurement processes in healthcare are examined, it becomes apparent that no method is consistently used to show the value of various projects and programs. The ROI Methodology, developed and refined over two decades, has worked its way into the healthcare field with dramatic results. “Show me the ROI” is the familiar response from individuals asked to invest (or continue to invest) in major projects. At times, this response is appropriate. At other times, it may be misguided; measures not subject to monetary conversion are also important,

if not critical, to most projects. However, excluding the ROI from a successful profile is unacceptable in this age of the “show me” generation. The ROI is often required before a project is approved. Sometimes, it is needed as the project is being designed and developed. Other times, it is needed after project implementation.

This issue is compounded by concern that most projects today fail to live up to expectations. A systematic process is needed that can identify barriers to and enablers of success and can drive organizational improvements. The challenge lies in doing it—developing the measures of value, including monetary value, when they are needed and presenting them in a way so that stakeholders can use them.

A GUIDE TO MEASURING ROI

This book is a basic guide for anyone involved in implementing healthcare improvement projects—systemwide medical procedures, technology implementations, systems integration, new quality processes, physician engagement, nurse retention, risk management, leadership development, or any other type of project where significant expenditures of time and money are at stake. Strategies to assist in forecasting the value of the project in advance and in collecting data during and after project implementation are presented. This book uses a results-based approach to project evaluation, focusing on a variety of measures that are categorized into six data types:

1. Reaction
2. Learning
3. Application and Implementation
4. Impact
5. Return on Investment
6. Intangibles

This book offers a step-by-step guide to identifying, collecting, analyzing, and reporting all six types of data in a consistent manner that leads to credible results.

CREDIBILITY IS KEY

This unique book focuses on building a credible process—one that will generate a balanced set of data that are believable, realistic, and accurate, particularly from the viewpoint of sponsors and key stakeholders. More specifically, the methodology presented in this book approaches credibility head-on through the use of:

- A balanced set of data
- A logical, systematic process
- Guiding Principles, a conservative set of standards
- A proven methodology based on thousands of applications
- An emphasis on implementing the methodology within an organization to ensure that the process is sustained
- A procedure accepted by sponsors, clients, and others who fund projects

The book explores the challenges of measuring the hard-to-measure and placing monetary values on the hard to value. It clarifies much of the mystery surrounding the allocation of monetary values. Building on a tremendous amount of experience, application, practice, and research, the book draws on the work of many individuals and organizations, particularly those who have attained the ultimate levels of accountability using the ROI Methodology. Developed in an easy-to-read format and fortified with examples, CEO highlights, and quick summaries, this guide is made for audiences who seek to understand more about bottom-line accountability and use of evaluation data to improve future outcomes.

TARGET AREAS FOR PROJECTS

This book is geared toward a variety of functional areas in healthcare organizations where projects are implemented. These areas include (but are not limited to) projects in:

- Human resources, education, talent management
- Learning and development, performance improvement

- Technology, IT systems
- Medical meetings, events, and conferences
- Leadership, development, coaching
- Marketing, promotion
- Risk management, compliance
- Public relations, community affairs, government relations
- Quality, Six Sigma
- Operations, methods, logistics
- Case management
- Research and development, innovation
- Finance, control, accounting
- Procurement, distribution, supply chain
- Public policy projects
- Charitable projects

More than 3,300 individuals have become a certified ROI professional (CRP) through the ROI Institute. Although many books tackle accountability in a certain function or process, this book shows a method that works across all types of projects.

Acknowledgments

FROM JACK AND PATTI PHILLIPS

At last count, we have had the pleasure of working with more than 300 healthcare organizations during the last two decades. Although much of that work began in the HR and learning and development areas, many of the projects have covered technology, marketing, quality processes, and more recently, all types of processes, systems, and medical procedures. Some of the early efforts involved work at Banner Healthcare, VA Health Systems, Baptist Hospital chains, and Scripps Health. With the VA, we've enjoyed more than a decade of ROI use, and they have done a marvelous job of sustaining the use of ROI as a tool in their large, complex system.

We have learned much from our clients in this important field. We appreciate their willingness to invite us in to share their projects with them. It has allowed us to develop capability in their organizations for the sustained use of ROI. Without our clients, this book would not be developed.

We would like to thank Vic Buzachero and Zack Phillips for their willingness to collaborate on this project. They each bring tremendous operational experience in the healthcare field and know firsthand the applicability of the ROI Methodology to healthcare organizations.

We owe much appreciation to Rachel Robinson, who, as senior editor, has guided this project from the very beginning. She is an outstanding editor and project manager, which makes her a valuable asset well beyond her publishing responsibilities. Thank you, Rachel, for your contribution to this publication and the many others we send your way.

FROM VIC BUZACHERO

We would like to acknowledge Scripps Health for providing information and background on the organization, performance management process, and decision-making systems. In addition, thanks to Nancy Buzachero who provided support and for the time I spent distracted from her during vacation, grandbaby showers, and valuable evening hours after a day at work. Her patience and understanding were cherished.

FROM ZACK PHILLIPS

I would like to thank Jack, Patti, and Vic for the opportunity to be involved in this project and Rachel Robinson for her tireless efforts in editing this book. I would also like to thank my parents Don and Ellen for their love and support. I am privileged to be associated with everyone connected with this project and look forward to a bright future showing the ROI in healthcare.

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Healthcare Performance Improvement Trends and Issues

Few topics stir emotions to the extent that healthcare does. The mention of the topic often elicits strong feelings and opinions about costs, quality, access, and a host of other issues. Healthcare touches everyone, and it represents one of the largest expenditures in almost any economy, particularly in the United States. The cost to provide healthcare is growing much faster than the cost of other goods and services. Although the quality of healthcare has improved, safety and consistent quality outcomes still remain a concern. Access to quality healthcare is still an issue (particularly for those individuals who cannot afford it), as is the patient experience, which is rarely addressed appropriately.

Because of its tremendous cost and importance, the healthcare industry has been a target for many types of measurement efforts. Healthcare (the treatment of the health of people) is one of the most highly regulated and measured of all industries. All types of monitoring, recording, and measuring have entered into the healthcare arena, some with success and others not as successful due to the “practice of medicine.” The practice of medicine is not an exact science, but one of discovery. Meanwhile, all types of healthcare performance improvement projects have been undertaken, and unfortunately, many of them have failed to live up to expectations. What is

needed is a systematic approach to improving the healthcare industry, using a proven measurement process that generates credible outcomes.

These important challenges must be addressed for a sustainable healthcare system in the United States and around the world. This opening chapter describes the issues and challenges that the healthcare industry faces and builds the case for major changes in the ways that healthcare improvement projects are initiated, delivered, and evaluated. The following opening stories highlight the dramatic changes that are occurring in healthcare and what healthcare organizations must do to survive in the future. Scripps has spent years preparing for the future and they will be able to address the tremendous changes that will occur. Metropolitan Foundation Hospital more than likely will not be able to survive and will be a candidate for consolidation, merger, or acquisition.

OPENING STORIES

METROPOLITAN FOUNDATION HOSPITAL

Metropolitan Foundation Hospital has enjoyed a successful 30 years of service in a major metropolitan area. With several locations in the city, the nonprofit healthcare provider is operating at a modest but manageable deficit. Executives are active in their community as part of their corporate social responsibility program. The hospital only accepts patients who do not have health insurance to meet the minimally acceptable legal requirement. Fees charged are based on the cost of services.

As the top executives plan for the future, they see substantial changes in the healthcare area as Medicare switches from *pay for services* to *pay for value* or bundled payments for service (capitation). Commercial payers are also migrating in the same direction. One analysis shows that based on Medicare reimbursement rates, the hospital would have to reduce prices by \$1,200 per average case rate, which obviously would be devastating financially for the healthcare firm.

As the top executives address this issue, they have reviewed the current status with some of the key areas. Although they have collected patient satisfaction data, they have not taken any particular actions because of them. Further, identifying the cost of processes and procedures has not been routine and systematic. Although patient quality and outcomes are loosely tracked, little effort has been made to show related cost of that

patient quality. Efforts to improve physician and nurse engagement have been limited at best. Top executives recognize that too much waste occurs and the staff seems to be inefficient, but they struggle with commitment to make changes. These challenges present executives with some critical obstacles in the future of healthcare.

SCRIPPS HEALTH

Scripps Health is a not-for-profit, San Diego-based healthcare system that is successful on any dimension. The system, which includes five hospitals and 23 outpatient facilities, treats almost 2 million patients annually. Scripps employs more than 13,000 employees and has been named one of “America’s 100 Best Companies to Work For” every year since 2008. The system also includes clinical research and medical education programs.¹

Having enjoyed success over the past 80 years, Scripps is a financially sound and stable organization with AA-rated bonds, one of only four healthcare organizations in California to hold this distinction. The “people” part of their process is managed extremely well, enabling Scripps to provide efficient, quality healthcare. Scripps regularly appears on lists of admired organizations, the best places to work, and the best employer for certain groups. Executives place specific emphasis on corporate social responsibility with more than \$370 million contributed to community service and charity care. Scripps is considered among the top providers of healthcare. For example, Scripps was named by Thomson Reuters as one of the Top 10 health systems in the nation for providing high quality, safe and efficient patient care.

The success of Scripps rests on the quality of its leadership and the systems and processes in place to make it an outstanding healthcare delivery organization. Scripps focuses significant efforts on sound financial processes, process improvement projects, and a variety of initiatives to improve the quality of healthcare. Among the processes used by Scripps is the ROI Methodology, a process that shows the success of healthcare improvement projects using six types of data with standards and a process model. At least 20 of Scripps professional team members have achieved the designation of Certified ROI Professional as they continue to conduct ROI studies on a variety of processes to ensure that they are delivering value and quality healthcare and achieving a positive financial outcome.

NEW ERA IN HEALTHCARE

Healthcare reform is front and center in American society, the economy, and political arenas. Costs have grown annually, outpacing general inflation for decades, compounding the healthcare concern. The weight of this cost trend on Medicare has led Congress to pass landmark legislation that may, in fact, be the legacy of the Obama Administration. The legislation addresses coverage for the uninsured, affordable health insurance for small businesses, and coverage for minors and preexisting conditions. This legislation is sweeping in nature and has far-reaching implications.

SUBSTANTIAL COST IMPACT

To pay for expanded coverage for the millions of uninsured Americans, a series of cuts in Medicare reimbursement to hospitals, physicians, and other providers from current levels will be used as “prepayment” for this coverage. The expanded coverage and payments for the uninsured will forestall the current practice of cost shifting by hospitals to commercial carriers to cover the uninsured. Hospitals have used the shifting of the cost of providing uninsured care to commercially insured payers via increased pricing.

Healthcare reform also allows employers and individuals to purchase coverage through state-run insurance exchanges that bid competitively at lower prices to offer coverage. These declining prices toward Medicare rates, which generally do not cover costs in most hospitals, will have a devastating impact on the viability of healthcare operations. As illustrated by Figure 1.1, hospitals of all sizes will need to reduce costs by as much as 17 percent to break even on Medicare reimbursement.

CHANGING THE RULES OF THE GAME

Payment for services has traditionally been based on a fee for service model in healthcare. Healthcare reform includes modification to the model by shifting to pay for value added via value-based purchasing, penalties for readmissions, and prices that do not cover excessive utilization but instead reward providers for managing population health. The overall concept of the “triple aim” focuses on the following: