Benchmarking: The Reality of Performance

"You can't manage what you don't measure"

Decreased reimbursement combined with rising insurance and overhead costs have created a challenging market for healthcare providers. Many are discovering traditional profit generating opportunities are dwindling or no longer exist. Chances are your practice has begun taking a closer look at many day-to-day operations in the hope of squeezing out more revenue while still maintaining quality patient care.

You're not alone; "On the Edge", Examining Industry Trends, MGMA August 2006, observes that in the current business environment, there are two variables left for increasing financial performance: expenses and physician income. Since it's unlikely most physicians would consider taking a pay cut to maintain costs, the focus has shifted to reducing expenses by creating efficiencies through better management of resources and technology. The methods utilized by Business Performance Management (BPM) address both concerns.

This trend towards adopting BPM strategies began in the mid-1990's, quickly spread to hospitals and has finally started to gain acceptance in clinics and physician groups. It begins with benchmarking, a powerful tool that reveals the challenges, opportunities, and the driving forces behind the business of medicine. It's estimated that almost 40% of all physician groups use benchmarking as a means of improving performance, and in turn, creating profits.

Simply put, benchmarking relies on measurements to compare the performance of specific business processes. Monitoring and measuring key revenue indicators provides a clear picture of which processes are profitable, and those that are not. In the process of analyzing this data, best practices and successful strategies are defined.

Why Do I Need To Benchmark?

Although the concept of benchmarking is simple, the benefits are significant:

- Comparing your office to similar "better performers" encourages new ideas, innovation and flexibility, traits that are key to surviving a changing market. Working smarter increases profitability, often without additional resources.

- Comparisons to similar organizations can also alert your office to opportunities unique to your geographical area or specialty

- Benchmarking creates a foundation for improvement and defines priorities by focusing on areas of exception, eliminating data overload.

- Benchmarking provides a means to adapt best practices to your organization in a systematic way, by creating awareness and accountability. Creating awareness of poor performance and its' impact motivates staff to excel and encourages ownership. Some offices use benchmarking as a way of offering bonuses or as part of employee performance reviews.

- Benchmarking eliminates educated guesses and provides hard data to back up decisions. The data is unbiased and provides an objective basis for evaluation of strategies and goals. It allows pre-conceived ideas to be put to the test and uncovers the truth about operational processes and strategies.

- Analyzing benchmark data reveals trends and allows you to take action before a situation is out of control. Where the problem exists becomes visible, as well as the why behind it.

Steps in the benchmarking process

Before you begin the process, it's important to create an atmosphere of collaboration, since employees will be held accountable for their goals**.** Utilizing benchmarks from similar better performing practices ensures goals are reasonable and provides a realistic baseline, increasing motivation and ownership.

Note, if your office decides to utilize performance management software it may already perform most of following functions. Pre-determined indicators and values, data collection, visual displays of information, alerts and automatic analysis reports save hours of time and greatly minimize the BPM learning curve. See Before You Purchase a Performance Management System for tips on choosing software.

1. *Determine what areas are crucial to revenue growth*
   Better performing practices divide their processes into weekly, monthly and quarterly benchmark reviews of the following areas:
   - Profitability and cost management
   - Productivity capacity
   - Accounts receivable and collection
   - Managed care operations

2. *Identify the key performance indicators (KPIs) necessary to measure these goals.* Although there are a number of factors that affect your revenue cycle, monitoring the following are a good start:

   Front Desk:
   - Percent of new patients
   - Number of patients seen
   - POS cash collected

   Charge Capture and Billing
   - Number of claims billed
   - Total charges billed
   - Average daily revenue
   - Total charges unbilled
   - Number of claims unbilled

   Collections and Follow up
   - Cash collections
   - A/R days
   - Total gross A/R
   - Total net A/R
   - Percent A/R > 90 days
   - Total credit balance A/R
   - Cost to collect as percent of net revenue
   - Number of days to pay

   Denial Management
   - Number of denials received
   - Dollars denied
   - Denials as percent of net revenue
   - Percent of denied dollars written off

3. *Develop realistic revenue benchmarks from internal or external sources.* Medicare, MGMA, AMA, and many professional affiliations offer industry standard benchmarking statistics.

4. *Collect data from all relevant sources*
   Collecting and combining data from numerous sources is one of the most critical although time consuming activities. Because data usually comes from incompatible sources, most offices manually enter information into spreadsheets unless they utilize a BPM software system to eliminate this step.

5. *Monitor and measure daily, weekly, monthly and quarterly financial indicators*
   Some activities are best monitored on a daily basis to provide staff with immediate feedback. Weekly and monthly indicators are used by managers to oversee daily operational processes and spot trends. Quarterly indicators are best presented as “scorecards”, highly summarized information that provides the long term view needed to evaluate business strategies.

   Lagging indicators provide highly useful information about the effects of your current processes, but don’t allow you to prevent a crisis. Leading indicators serve as warning signs, allowing you to manage proactively and need to be viewed frequently. BPM software usually has an automatic alert system to let you know immediately if targets have fallen to unacceptable levels.

   Monitor leading indicators in these areas or processes to take action before revenue declines:

   - Front desk processes
   - Total charges billed
   - Fee Schedule
   - Coding Practices
   - Contract negotiation
   - Payer Mix
   - Adjustments
   - Number of denials received
   - Dollars denied
   - Account Follow Up (% of AR appealed, Percent debit A/R > 90 days)
   - Payment Posting
   - Claims process (Number of claims billed, Total charges billed, Accuracy of billed claims)

6. *Analyze performance and note which processes need to be improved.*
   What areas are performing as expected? Where are the opportunities to increase performance levels? Determining the gap between current and desired targets will determine future KPI levels. Analysis of indicators can reveal the source of known problem areas and uncover hidden problems buried in layers of operational data.

7. *Communicate performance findings and take action*
   Once areas for performance improvement have been identified, provide information to employees about the results. Formulate a clear-cut action plan with specific actions to guide their efforts. Assign a timeframe and responsibility for progress to appropriate team members.

8. *Evaluate results of action plan*
   Begin the process again! Benchmarking is a systematic procedure that needs to be done continuously, to meet the endless cycle of challenges presented by healthcare. Evaluating current strategies regularly encourages your organization to be flexible and able to adapt quickly to new methods.

Benchmarking keeps your practice on track, providing a structure that guides you towards achieving financial success. Most indicators should not be evaluated in isolation; they need to be interpreted in context by someone familiar with the unique dynamics of your organization. See Better Performers: Creating a Culture of Excellence for information on how to make the most of your benchmarking data.

References:

1. Improving Group Practice Performance with Benchmarking, Mary Witt, *Journal of Healthcare Financial Management*, February 2003.

2. Performance and Practices of Successful Medical Groups, 2005 Report, MGMA 2005.

3. “What’s Ahead for Medical Practice?”, Gregory Mertz, *MGMA On the Edge*, August 2006.