

# STRATEGIC FINANCIAL PLANNING

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// data analytics //

## 6 Steps for Effective Use of Peer Comparisons and Analytics

By Scott Engel and Orlando Ramos

*Successful use of comparative analytics requires high-quality data, technology, and often cultural shifts.*

The lack of good data and insight into costs and where savings opportunities exist continues to be the top-cited impediment to cost transformation, according to Kaufman Hall's latest survey detailed in the firm's new report, *2018 State of Cost Transformation in U.S. Hospitals and Health Systems: Time for Big Steps*. Widespread agreement exists that high-quality analytics are a key component of performance monitoring and informed decision-making, but clarity about how to obtain and ensure use of such analytics is missing, according to the 190 healthcare leaders who responded to the survey. More than 70 percent of surveyed executives lack confidence in the data produced by their cost accounting systems, and 42 percent say they do not have the structures and processes in place to hold leaders accountable for their organizations' cost transformation goals.

One significant area of untapped opportunity involves digging deeper using performance assessments and then comparing those outcomes with those of internal and external peers. When managed well, these comparisons help hospitals gain a more comprehensive and detailed view of their current performance and better perspectives on how

## 6 Steps for Integrating Comparative Analytics with Financial Performance Assessment

- > Determine primary and supporting metrics that serve the organization's objectives.
- > Identify how and where to locate required inputs.
- > Create or adopt a common taxonomy that enables comparison to internal and external peers.
- > Agree to common key volume measurements.
- > Incorporate software tools to support a rigorous approach to comparative analytics.
- > Nurture a management culture that embraces comparative analytics and prioritizes and supports initiatives based on achievement of targets.

they compare with similar departments or organizations. With data to prove that performance improvement opportunities exist and evidence that their peers are executing on those opportunities, leadership teams are motivated to pursue targeted corrective actions.

### Getting Started

To successfully incorporate comparative analytics into existing processes that monitor financial performance and signal improvement opportunities, high-quality data, software, and often cultural shifts are required. Six steps should be performed sequentially. Together, they form the roadmap for achieving value through the effective use of comparative analytics.

#### *Determine primary and supporting metrics that serve the organization's objectives.*

Primary metrics help measure priority areas, while supporting metrics help identify more specific areas of focus that should be addressed. Labor cost per key volume may be the primary metric to support a labor

cost-reduction initiative, while worked hours per unit and premium pay as a percentage of worked hours per unit would be examples of supporting metrics.

*Identify how and where to locate required inputs.* Data sources for finance, statistics, volume, and payroll data must be identified, and any data required for key and supporting metrics must be located. The ability to gather, process, and distribute comparative reports on a timely basis is imperative. Each source should be capable of providing data on a monthly basis. New sources are now available, offering monthly high-quality data and analytic capabilities.

*Create or adopt a common taxonomy that enables comparison to internal and external peers.* External comparisons require access to an external data source of related peer information, usually through subscriptions. All peer data sources should have a common finance, payroll, and statistic taxonomy. External peers should be selected based on similar characteristics such as region, state, hospital type, and bed size.

*Agree to common key volume measurements.* Utilization measurements are a key source of performance comparison. Common volume definitions ensure fair comparisons. If a department counts all billed items toward their monthly volume activity and peers only count billed procedures, the department volume will be inflated compared with peers, and all volume-related metrics will be understated, leading to improper performance measurement.

*Incorporate software tools to support a rigorous approach to comparative analytics.* Software systems are needed to warehouse and process data, and to generate management team reports in a format that is interactive, easily understood, and facilitates decision-making. The presentation of data should support analyses of the root cause(s) of performance problems and

quick identification of possible changes to improve performance using data-rich, software-based graphical tools.

*Nurture a management culture that embraces comparative analytics and prioritizes and supports initiatives based on achievement of targets.* Once the previous five steps are executed, multiple cost reduction and performance opportunities will surface, with indicators such as utilization. Key performance indicators are the uniform measurement for communicating financial goals. Leaders will need to make choices about priority opportunities to pursue based on data-rich and timely comparative analytics. Concurrently, leadership must nurture a culture that commits to identifying, modeling, and prioritizing performance improvement initiatives at all levels of the organization. Leaders must then direct resources to areas that will produce the most impact. Consistent use of high-quality comparative analytics will enable the best return from performance improvement initiatives.

### Harnessing New Perspectives

Acquiring and appropriately using high-quality data, tools, and processes that drive improved decision-making across business and clinical domains and help track improvement progress across transformation areas is an essential capability for today's hospitals and systems. When comparative analytics are a signature component of this capability, new perspectives about the magnitude of possible and necessary improvement emerge, along with clear insights into corrective actions that will provide the most substantial and rapid return on effort. //

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