A financially stable hospital is crucial to a community’s health as well as its economy, especially in rural settings. Local hospitals not only provide residents with essential health care services, they are also a major employer and help fuel the local economy.

Today, however, many of this country’s 1,600 small rural hospitals struggle to maintain financial stability and respond to the growing demands for health information technology and documented quality outcomes. Historically, these small hospitals have encountered obstacles that are both intrinsic (related to the hospital and its immediate environment), and extrinsic (related to broader reimbursement, policymaking and regulatory issues). Hospital associations and policy makers and researchers have generally focused on the extrinsic factors affecting rural hospital performance, and much less attention has been paid to the intrinsic factors. Opportunities for huge breakthroughs in rural hospital performance lie in effectively managing this intrinsic set of factors. This paper will outline strategies and frameworks for overcoming the intrinsic obstacles and establishing sustainable health systems for the future.

Comprehensive Performance Improvement is Key

While quality improvement is as important in a small rural health care facility as it is in a larger urban center, commitment to quality improvement can be undermined by the crisis management orientation of many small hospitals today. These very real, very urgent crises include financial shortfalls, loss of physicians and other key personnel, new demands for information and privacy, ongoing staff shortages, and increasing competition from urban-based health systems. The crises, combined with lingering questions about local quality of care, have often resulted in an erosion of community confidence in the local providers and out-migration for care to larger,
urban-based health centers. Lost to the local community are not only dollars for healthcare but also dollars for other local businesses.

The inter-relationship of the rural hospital’s challenges suggests the need for a clear vision and a comprehensive set of strategic initiatives. Improving clinical outcomes in a rural setting, for example, requires the monitoring of other performance-related factors that can directly or indirectly affect clinical quality, such as level of staff training, adequacy of equipment and facilities, and internal business and clinical processes. Therefore, a comprehensive rural hospital performance improvement initiative should include quality improvement as a vital component, but should also include financial improvement and work force strategies, methods of interacting with its community and customers, as well as attention to organizational architecture and culture. Seen in this broader context, performance improvement must be broad-based and sustainable, and must catalyze rural hospitals to make the profound changes necessary to be competitive in the new consumer-driven era.

**Performance Improvement Initiatives in Rural Hospitals**

The Minnesota Rural Hospital Performance Improvement project, funded by the Minnesota-based Blandin Foundation, and a companion project in the Mississippi Delta region, funded by the federal government, have brought technical assistance and performance improvement support to more than 90 small rural hospitals in nine states during the past five years. Evaluation results indicate these programs have strengthened participating hospitals and have helped ensure citizen access to needed health care services.

Employing a comprehensive on-site performance assessment process, highly skilled consultants have examined each hospital’s finances, business processes, clinical services, medical practices, operations and organizational architecture. In addition, they have assessed the market service area and conducted structured conversations with community representatives to determine community attitudes and community health needs and preferences. The assessments have then been packaged into a comprehensive report, providing information for strategic planning and identifying opportunities for improvement in financial, clinical and operational performance. Finally, the consulting teams have helped hospital leaders develop strategic plans with goals, objectives and action strategies to carry out the initiatives.

At the conclusion of these performance improvement processes, the hospitals have reliable information to make decisions, as well as step-by-step plans for the future. They also have some internal momentum and enthusiasm for moving forward.
As time passes, unfortunately, many rural hospitals lose their momentum and fail to achieve the potential improvements identified by the consulting teams and outlined in their strategic plans. Real life shows up with its many complexities, crises occur, and hospitals divert energy and focus away from their strategies and onto the brush fires of the day.

**Barriers to Strategy Execution**

Numerous management studies have documented the failure of organizations to carry out their strategies. According to Kaplan and Norton, Harvard-based scholars, in their book, “The Strategy-Focused Organization,” fewer than 10% of effectively formulated strategies are successfully implemented. Other management studies have placed the success rate of organizational strategies at between 10% and 30%. Research in this area has suggested a number of significant barriers to strategy execution. Paul Niven discusses these barriers in his book, *Balanced Scorecard: Step by Step*. The barriers include:

- **Vision Barrier**: Only 5% of the typical workforce understands the strategies and, therefore, are not aware of their role in implementation;
- **People Barrier**: Only 25% of managers have incentives linked to strategy (e.g., performance appraisals, bonuses, or other rewards);
- **Resource Barrier**: Less than 40% of organizations link their budgets to strategy; and,
- **Management Barrier**: Only 15% of executive teams spent an hour or more a month discussing strategy at their meetings.

According to the researchers, these barriers lead to the failure of between 70% and 90% of all organizational initiatives and are the chief cause of executive dismissal. Like New Year’s resolutions, strategies became the good ideas and the positive intents that never quite happen. They are included in expensive strategic plans that gather dust on CEOs’ shelves and are little known within the organization. Consequently, strategic planning loses credibility and momentum and often becomes little more than a loose guideline.

Poor strategy execution, then, rather than inadequate strategy development, is the cause of most organizational failures. An organization can have the best possible information, employ the best possible strategy advisors, and produce the best possible strategic plan, yet the strategies may still fail. The key, according to
the management experts, is execution. And consistent execution, it appears, depends on using an appropriate system to manage the strategies.

Using a football team as an example, a coach can gather volumes of information about the strengths and weaknesses of the opposing team, can design outstanding plays for his own team and can even have athletes that are better than the other team’s. Still, his team will lose if the players cannot execute the game plan. This execution requires extensive communication and understanding of the game plan, as well as aligning the entire team around an efficient execution of the plays.

Rural hospitals, given their diverse roles and meager resources, have historically struggled with strategic planning and strategic management. Lacking internal strategic planning and management/business expertise, and staffed largely by generalists, hospitals have relied on outside consultants to do much of this work. Generally, rural hospital planning takes place every two or three years at best, and sometimes not at all. Strategic plans are rarely shared with staff and are frequently shelved until the beginning of the next planning cycle. The barriers discussed earlier are all characteristic of the majority of these small hospitals.

**Strategy Management is Key**

To ensure sustainability of performance improvement efforts in rural hospitals, a “framework” and a “system” for strategy management must be present. Using performance management tools and processes developed and refined in other industries, such as the Balanced Scorecard, hospitals can sustain their performance initiatives despite turnovers in leadership, periodic crises, and financial shortfalls. They can also drive strategy awareness down through the organization, making strategy everyone’s responsibility. Ideally, these tools can help hospitals create a culture of change that will be needed to achieve future clinical and operational excellence.

According to Kaplan and Norton, effective strategy management systems have at least three distinct dimensions:

1. **Strategy.** Making strategy the central organizational agenda, and ensuring discussion at all meetings;
2. **Focus and Alignment.** Making every resource and activity in the organization align with the strategy; and,
3. **Organization.** Providing the logic and architecture to establish linkages across departments and employees.

Large hospitals have used these strategy and performance
management systems for years, with a mixed track record of success. The complexities and diverse cultures of these larger institutions have limited progress and slowed implementation of systems designed to facilitate change. Rural hospitals have been slow to embrace this relatively new management technology, but the potential for benefit and rapid deployment is great because of their smaller size and complexity.

**Balanced Scorecard and Other Strategy Management Systems**

Today more than half of the Fortune 1,000 companies in the United States use Balanced Scorecard technology to manage strategy and implement change. This management system was created by Robert Kaplan and David Norton of Harvard Business School in a series of articles and books. It has evolved from a performance measurement system in the mid 1990s to a performance improvement and performance management system in this century, and has demonstrated its effectiveness in numerous management studies. For example, in a recent study, 97% of business respondents using the Balanced Scorecard technology reported success in their last major organizational change, while only 55% of the organizations not using the Scorecard indicated success. There is also a growing body of evidence in the health care industry that Balanced Scorecards build and sustain value. St. Mary’s-Duluth Clinic in Minnesota, for example, attributes a significant financial turnaround to the Balanced Scorecard, and St. Luke’s Health System in Missouri used the technology as a tool to become the first health care organization winner of the prestigious Malcolm Baldridge Quality Award.

Today rural hospitals in more than twenty-five states are using some form of Balanced Scorecard technology. Hospitals such as Falls Memorial in International Falls, Minn., used it to accomplish a complete financial turn around, while more than 60 hospitals in Kansas and Nebraska are participating in statewide Balanced Scorecard initiatives designed to improve quality and profitability.

Another performance management system used in rural hospitals is the Studor Pillars, which was presented by Quint Studer in his book, *Hardwiring Excellence*. Like the Balanced Scorecard, this system has primarily been used in large market venues, where considerable value has been documented. No outcomes to date have been documented for rural hospitals using either of these systems, but both show promise of providing focus, improving quality and financial performance, and managing strategy.
The following is a brief description of the performance management systems currently used in rural hospitals nationally. Any of the these systems can be used successfully by rural hospitals, but they all require enlightened leadership, dedicated resources and organization-wide commitment to achieve successful implementation.

**Balanced Scorecards and Strategy Maps**

Robert Kaplan and David Norton, the architects of the BSC technology, created both a measurement system and an effective, understandable model of organizational strategy. Recognizing the rapid evolution of value from tangible to intangible assets and the need to measure predictors of future success, Kaplan and Norton designed a management tool for the 21st Century.

The Balanced Scorecard offers a simple framework for describing organizational strategies to create value. It has four major perspectives.

- Financial performance, in the first perspective, provides the means for hospitals to fulfill their community mission. “No margin,” obviously leads to failure of that community mission. This circumstance has been, overwhelmingly, the largest single reason for hospital closure. It is also apparent that financially troubled hospitals have difficulty sustaining internal quality improvement efforts, implementing needed technology, and recruiting and retaining staff. In addition, failure to access needed capital to make improvements erodes community confidence and diminishes patient satisfaction.

- In the second perspective, successful service to customers and community offers a direct causal linkage to financial success. By assessing and meeting the health services needs of its community, a hospital can fulfill its mission and provide value to its customers. The “customer” or “community” sector of the Balanced Scorecard measures the lagging outcome measures of customer satisfaction, retention and market growth. Particularly in non-profit settings, community and customer value becomes the central element of strategy.

- Continuously improving internal clinical, operational and business processes, in the third perspective, creates
the value recognized by customers and the community. These improvements lead directly to better clinical outcomes, safer environments, and more satisfied patients. The performance of internal processes is also a leading indicator of subsequent improvements in market share and financial growth.

- Learning and growth objectives in the fourth perspective build intangible assets and are a primary source of sustainable value. They describe how the staff, technology and internal culture combine to support execution of the strategies. Improvements in “learning and growth” are lead indicators for success in service and product quality, as well as customer satisfaction and financial performance.

Objectives in each of these four perspectives can be linked together in a cause-and-effect relationship in an organization’s “strategy map.” This one-page depiction of organizational strategies provides an easily accessible alternative to the old strategic plan. The strategy map, with an accompanying balanced scorecard, becomes the means of communicating strategy throughout the organization, the basis for board and leadership agendas, and a benchmarking system for measuring progress toward strategy execution. It also provides intense organizational focus as well as an effective framework for strategy management.

**Studer Principles**

In his book, *Hardwiring Excellence*, Quint Studer presents a performance management system based on five pillars of excellence and nine fundamental principles. He states, “The journey to being a world class organization begins with a firm and measurable commitment to excellence.” The pillars provide the framework for achieving this excellence.

Studer’s Pillars include: (1) Service; (2) Quality; (3) People; (4) Finances; and (5) Growth. A sixth pillar, “Community,” is sometimes used by rural hospitals that have implemented the system. The pillars are the strategic framework for the system, and individual strategies, initiatives and measurements fall within the framework.

Studer also developed nine fundamental principles to drive his system. They include:

- Commit to excellence in:
  - People;
Studer initiatives in rural hospitals are designed to create a culture of excellence, where leaders and staff aspire to goals far beyond the industry standards. Rural hospitals have historically spent a great deal of time collecting data and information and very little time using the data for constructive purposes. In other words, staff collects information and passes it on without knowing why it is collected, and leaders receive the data and fail to act upon the information. Studer suggests eliminating wasteful data collection and gathering the right information for decision-making and for performance measurement. He prescribes the following:

- **Build a culture around service.**
  In the new consumer-driven era, outstanding service leads to customer loyalty and creates value. In rural hospitals, this will generally build upon a key strength.

- **Develop leaders.**
  Investment in leadership development will be essential for long-term rural hospital success. Lack of leadership training and succession planning often leads to major crises and breakdowns in hospital performance. Distance and web-based education present excellent opportunities for leadership growth.

- **Focus on employee satisfaction.**
  The impending shortage of health care workers and the high cost of staff turnover supports intense focus on employee satisfaction and retention of personnel. Recent studies also indicate that patient satisfaction is highest when hospital staff appear happy and work as a cohesive team.

- **Build individual accountability.**
  Studer contends that this includes both measurable accountability for work assignments and individual accountability for fulfillment of hospital strategies. This speaks to the need for individual performance evaluations to build in perspectives on contributing to the strategies of the organization.
• **Align behavior with goals and values.**
  Clarification and communication of organizational values and goals provide parameters for hospital employee behavior. It is also related to staff satisfaction and retention of employees.

• **Communicate at all levels.**
  Goals and strategies should be communicated to all hospital staff using multiple methods, including charts, educational events, and written materials. Employees should feel empowered to identify system breakdowns and to suggest improvements.

• **Recognize and reward success.**
  Recognizing and rewarding employees that contribute to customer service and strategic success will drive strategic awareness throughout the hospital. This can be done through a variety of cost-effective methods.

In some hospitals, the Balanced Scorecard and Studer Principles have been combined to create a hybrid product. Early indications are that the two systems are generally compatible and that the use of both may provide additional value to the organization.

**Lean Six Sigma**

Lean Six Sigma is a technology based on the Toyota production model. Its goal is to create a culture of empowerment and improvement that drives inefficiencies out of both internal and external processes. The results are intended to be fewer defects, greater efficiency and reduced costs. To be “Lean” is “to provide what is needed, when it is needed, with a minimum amount of materials, equipment, labor and space.”

There are five principles of Lean Thinking:

1. Define value from a patient perspective. This will be of particular value in the new “consumer-driven health care” era and should be a part of the hospital culture;
2. Identify the entire value stream for each service and product. Documenting a value stream creates an understanding across the hospital of what is necessary to improve the organization’s services;
3. Make value-creating activities flow by eliminating waste. This is particularly applicable to saving time for both providers and patients in the health care setting;
4. Let the patient pull the service or product. This patient-centered approach may vary from the traditional, somewhat paternalistic, practice of directing the patient to services the health care provider deems appropriate; and,

5. Pursue perfection through high-performance teams. This means that everyone is striving to improve, work silos are forbidden, and everyone in the hospital has a responsibility for quality.

Lean Six Sigma helps to ensure the sustainability of a hospital’s performance improvement initiative over time. Providers that adopt the framework will pursue improvements in financial performance, patient satisfaction, quality of care, process speed and process variation. The approach has at least four basic elements:

- Strategic Vision--aligning the process improvement initiatives to the overall business objectives;
- Cultural Acceptance--treating the process improvement methodology as a belief system;
- Quantitative Analysis--utilizing a set of tools to do quantitative analysis of information; and,
- Process Improvement—utilizing an array of process improvement methods to address issues and obstacles faced by the organization.

Lean thinking has been successfully applied in many rural hospitals to improve quality and create a safer environment. It provides an important framework for continuous quality improvement. When applied organization-wide, it has the potential to create motivated workers, increase patient safety, increase customer/patient satisfaction and improve financial performance. Lean Six Sigma can also be used in combination with the Balanced Scorecard as a tool to improve internal processes and would be highly compatible with the Studer technology as well.

Basic Components of a Rural Performance Management System

Webster’s Dictionary defines a “system” as “a regularly interacting or interdependent group of elements forming a unified whole.” As economically fragile, crisis-oriented organizations operating in an era of profound changes, rural hospitals require a systems approach to achieving and sustaining widespread performance excellence over time. The critical elements in such
a rural hospital system are outlined below. The assumption is that these elements are interdependent, and that a failure in any one area can have an adverse impact on the other elements and a resultant reduction in overall hospital performance. To use a familiar expression, the organizational “chain” is only as strong as its weakest link.

1. A Performance Framework.
Performance management frameworks have been described briefly in the narrative above. Whichever framework chosen — Balanced Scorecard, Studor Principles, Lean Six Sigma, or any other — must be embraced by top leadership, board and eventually staff. The framework will provide the mechanism for imbedding the system in the organization, will ensure a holistic strategic outlook, and will provide an early warning as to breakdowns in key performance areas.

2. An Empowering Culture
The successful rural hospital culture of the future will be change-oriented, customer-focused, collaborative and designed to maximize staff retention. These attributes are directly related to rapidly escalating health industry changes, pay-for-performance rewards for customer satisfaction and increasingly demanding patients, mounting demands for expertise and cost efficiencies, and shortages of key hospital staff. This culture will require investments of staff, time and money, and should be measured periodically to ensure progress.

3. Ongoing Staff and Board Education
The increasing complexity of the health care industry, the intense demands for documented quality outcomes and the new skills required in a knowledge-based economy will severely tax the capabilities of most rural hospitals. While access to outside expertise is essential for some of this support, new skill sets will be necessary for core hospital staff and leadership. Information technology adoption, for example, requires extensive education and skill building in smaller hospitals, which are staffed by older and less computer-literate staff than their urban counterparts. Since most of this education will not be available to rural hospital staff locally, a great many of the educational modules will have to be provided though the Internet.

4. A Fully Staffed and Skilled Workforce
The current and impending shortages of key health care providers and technicians are well documented. Physicians, nurses,
pharmacists, therapists, medical technicians, dentists and mental health professionals are already in short supply, with predictions of even greater shortages in the future. The successful hospital of the future will make ongoing investments in its current staff and will carry out strategies to recruit and retain skilled and motivated employees.

5. Ongoing Process Improvement
In response to payer and customer demands for quality outcomes and transparency, rural hospitals must adopt a culture of continuous improvement. Hospital employees must see service organizational excellence and patient safety as a personal responsibility, and they must be empowered to suggest and carry out actions for improvement. Incorporating systems such as Lean Six Sigma will provide a structure for this ongoing improvement.

6. Comprehensive Leadership Development
The key to designing, building and maintaining each part of this performance management system will be enlightened hospital leadership. This starts with the board of directors and CEO and includes upper and middle management, medical providers and informal leaders. Again, distance learning and specially designed rural leadership programs may be necessary to supplement what may be available on site.

7. Technology
Thoughtful, strategic investments in a wide range of technology will be crucial for rural hospitals. This includes health information technology and medical technology, but also includes management and systems technology. Timely investments in systems technology will insure that investments in other technology will produce maximum value.

8. Participation in Partnerships and Networks
Rural hospitals will be compelled to seek resources and expertise from multiple sources. One of the best strategies for building collective volume and gaining efficiencies is through participation in networks. Either as a part of a larger vertical health system or as a member of smaller horizontal networks, rural hospitals will require supportive partnerships to survive. This is of particular importance in the implementation of health information technology, where community partnerships and regional partnerships will be necessary for cost-effective implementation.
9. Access to Capital
The myriad investments described above will require significant access to capital. Such access has been facilitated by Critical Access Hospital reimbursement, which allows for the pass-through of capital costs on the Medicare cost report. The reimbursements, in turn, have led to a more positive bottom line. Outstanding financial performance and a sound business plan, however, will also be essential to capital acquisition in the future.

10. Access to Outside Technical Expertise
When Lou Holtz was hired as the new coach of the Minnesota Gophers in the 1980s, he was met with a barrage of questions by sports reporters at his first regularly scheduled press conference. “Will the new coach,” they queried, “keep alive the tradition of using Minnesota boys exclusively on the team?” This tradition had once produced superior results and national championships, but for the past few decades, the team and their devoted fans had suffered through one losing season after another. Holtz’s response has relevance to small communities everywhere: “Our goal will be to maintain the values, heart and soul of our outstanding Minnesota boys, but we may have to bring many of the arms and legs in from out of town.” Because they are small and local expertise is incomplete, rural hospitals will need to have easy access to expertise in business, quality, education, capital, and many other areas. They must work to preserve their community values and use staff and local expertise where appropriate, but they will also need to confer with national and state experts from time to time. Investments in this type of expertise will prove an essential cost of doing business.

Conclusion
Rural hospitals face severe challenges in the years ahead to respond to increasing federal and payer mandates for documented performance. In the new customer-driver health era, rural hospitals will be compelled to improve and document their performance, as well as respond to increasingly demanding health care consumers. Gaining access to performance information (both internal and external) and designing strategies to meet the expanding demands will not be enough to achieve success in this new era. Performance management technology will also be necessary to produce desired outcomes and align the organization behind the strategies. The performance management systems outlined above present promising alternatives for rural hospitals, but formal evaluations of their effectiveness are generally lacking. More documentation of outcomes
is needed, but rural hospitals cannot afford to wait until all of the research is concluded. As Will Rogers remarked, “Just because you’re on the right track doesn’t mean you won’t get run over if you just sit there.”

References

