Success Belongs to Those Who Can Manage Money and Quality as Two Sides of the Same Coin

From Common Sense To Health Cents

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Stronger Margins Require Strong Quality

"No company can grow revenues consistently faster than its ability to get enough of the right people to implement that growth and still become a great company."— David Packard

With appropriate apologies to Mr. Packard, co-founder of Hewlett-Packard, and Jim Collins, author of so many savvy business books who quoted him in his landmark book, "Good to Great," the healthcare equivalent of the Packard's Law they made famous could read: ***"No hospital can grow revenues consistently faster than its ability to get enough of the right quality management to implement that growth and still become a great hospital."***

In other words, if you seek to grow the almighty healthcare dollar without simultaneously growing quality, your hospital will never be sustainably great. In fact, it may become desperate—and then, gone.

Consider this real-life example of a hospital chasing revenues without enough concern for how well it did so *that it could end up with the financial net gain it sought* — a scenario that plays out far too often across the healthcare universe: Two chief executives — the hospital's CEO and CFO — persuaded their board of trustees to chase what they projected to be the kind of big financial gains *that would strengthen a failing operating margin* with the purchase of a very expensive piece of innovative diagnostic technology that very few hospitals had. The financial projections made it hard for the board to imagine how the hospital could lose — *until a string of poorly managed quality-related costs started to pile up,* primarily because the C-suite still treated quality as something linked to regulatory compliance rather than to making sure that enough things were done right the first time in the most business smart ways possible to maximize both the top-line and bottom-line returns on the investment made.

The hospital's first major setback came when the equipment installation was delayed by six months because of physical plant issues that were not anticipated, and a failure to submit the correct paperwork to the required state agencies.

Giving the hospital on the other side of town that six months to close the competitive gap, scheduling problems, physician support issues and an instantaneous reputation on social media sites for poor patient experiences caused the hospital to only achieve about half of the patient volumes it projected.

Procedures done during the first two months could not be billed because the hospital had not started the set up process with its payers early enough. One-fifth of all revenues that should have been collected were lost during the first five months of billing because wrong charge codes were used. One-eighth of the completed cases could not be billed because they lacked the required prior approval that payers demanded. An additional four percent of all claims for payment were rejected for untimely filing, while an additional five percent of collectable revenues went unrecovered as no one was following up on claim rejections for missing information.

With the accumulation of these and other problems, the year one earnings were just enough to pay off the loan obligation for the equipment and other associated maintenance requirements — with each subsequent year thereafter not being even that good as the neighboring hospital got its equipment going with stories of better customer satisfaction.

Typical of how health care has too frequently treated these types of situations, there were no lessons learned because of an old-school belief reiterated by the CFO that, in his mind, quality — how well one does what one does with the goal of maximizing both top-line and bottom -line business health — has nothing to do with introducing a new service, even though that is exactly why this hospital and so many like it may not survive COVID-19 as its pandemic-related losses compound the losses that health care creates for itself every day.

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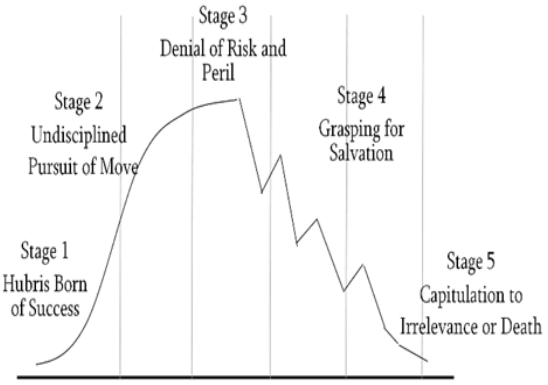
Health Care's Biggest Threat

As the financial condition of an already struggling industry is about to get a lot worse with new numbers suggesting that the hospital industry could end up losing as much $239 billion as a consequence of COVID-19, *with a resulting median margin as worrisome as a minus seven percent* on top of the nearly $200 billion they have been projected to lose in basic reimbursement by the end of this decade, one of the most critical business decisions on the table for every industry leader and physician is whether they will start practicing the kind of across-the-board business-oriented quality management that other industries practice with a focus on keeping their margins as healthy as is possible in *a technologically-advancing era defined by high costs, too many expensive medical errors, fragile patient loyalties, growing competition and constantly shrinking financial reserves.*

It is about whether the industry will continue a long-standing practice of trying to solve its problems, as defined in Packard's Law, *through the pursuit of "more" crippled by an attitude that quality — getting it right the first time in the most business smart ways possible — is an incidental how healthy bottom lines are created.*



Packard's Law

Whether it is:

- the CEO who continues to believe she is winning some war against change when she dedicates a host of duplicative resources to a bunch of little quality projects that — by their reactive design — encourage her hospital to be a day late and safety-measure short in controlling for the added costs that medical errors create,

- or the leader who still grasps for salvation by purchasing a new piece of equipment that will never generate enough volume to yield a net financial gain,

- or the group of hospitals that band together to create a healthcare system that has no idea how it will create enough new revenues to produce the kind of profits it members need after paying for roughly one million dollars in new administrative overhead,

- or the tertiary hospital that buys up a number of smaller hospitals for the referrals they represent and learns the hard way that patient loyalty is not part of the purchase when it dismisses the importance of patient satisfaction for the communities caught up in an old-fashioned landgrab,

- or the hospital system that decides to make its fortune by creating its own insurance product without making sure its quality practices for getting care right the first time are strong enough to control for all the preventable quality costs its premiums will end up paying for — **the question is always the same: *how will today's healthcare providers make it if they do not operate with the kind of top-line and bottom-line focused quality that makes a shrinking healthcare dollar work?***

It is the difference in what a hospital CEO could have experienced with opening a new dental clinic if he had proactively tapped into the expertise of his infection control professional to maximize the potential of getting the clinic's most important infection prevention designs right the first time.

Instead he ended up having to delay a revenue-producing grand opening by six months when a clean/dirty workroom had to be ripped out and redone so it would pass inspection. *When asked how his experienced infection control professional did not catch the design error when reviewing the blueprints or walking the construction site as part of the project management team*, his answer was all telling: she was not involved because building a clinic has nothing to do with being ready for a survey.

And that, plus too many similar choices about how he valued quality, is exactly why he lost his job, the hospital never achieved the financial successes that had repeatedly been projected and three other revenue-producing projects had to be delayed or cancelled all together. Because of how many times important revenues never materialized at the same time he had to cover costs like paying for the salaries of professional staff that had already been hired, watching as supplies on shelves outdated with each passing day and making payments on very expensive equipment that had already been installed but was sitting idle — in an environment characterized by tiny discretionary reserves back up by an ever-shrinking operating margin — he and his hospital paid the price that comes with the undisciplined pursuit of "more" lost in the costs of poor quality.