Making the Business Case for Quality

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This first installment in a four-part series presents a deliberate five-step approach for making the business case for quality.

Physician leaders are under growing pressure to continuously improve clinical outcomes, access to care, and the patient experience; eliminate waste and unnecessary cost; and prevent burnout. Achieving this "quadruple aim" within the new calculus of value-based care requires that they demonstrate to payers and deliver to patients comparatively and competitively higher quality at the lowest cost.

Despite their considerable influence on the bottom line, physician leaders often are challenged with "monetizing" and translating quality improvement needs and goals into a defensible return on investment. Success requires understanding how to make a simple, yet effective business case for quality.

This first in a four-part series presents a deliberate approach for making the business case for quality using a proven method that includes defining the opportunity, estimating the cost of waste, and quantifying the cost of the proposed solution and its anticipated financial impact.

INTRODUCTION TO THE BUSINESS CASE

A business case is an evaluative tool to project the financial impact and feasibility of a quality improvement initiative or project. It supports exploring the cost-benefit tradeoff of a range of potential outcome scenarios.

The goal of a business case is to facilitate informed leadership decision-making for prioritizing and allocating increasingly scarce resources to support the organization's mission and strategic goals. In other words, a business case highlights the opportunities that provide the most "bang for the buck," typically through projects that improve quality, eliminate waste, and improve efficiency.

CRITERIA FOR AN EFFECTIVE BUSINESS CASE

Four criteria for an effective business case are:

1. Comprehensive
2. Simple
3. Conservative
4. Actionable

The business case should include all possible variables that could affect the financial feasibility of the project, both quantitative and qualitative. A well-designed business case should be conservative in its projected financial impact, simple to understand, and easy to explain to key stakeholders to gain their buy-in and endorsement of the proposed project.

The business case for quality should establish realistic targets and drive accountability for achieving them, including the potential for unforeseen complications and risks, such as a new competitor entering the market, increased cost of labor and supplies due to shortages, and internal leadership turbulence causing turnover.

Lastly and most important, an effective business case should be developed with a focus on achieving measurable and sustainable results through implementation, continuous measurement, and ongoing monitoring and management. Beyond its usefulness as a comprehensive planning tool, a good business case should establish a clear pathway to follow-through and operationalize the proposed opportunity to support the organization's quality improvement goals.

CHALLENGES TO CREATING THE BUSINESS CASE

Common challenges to creating an effective business case include data limitations, financial language barriers, and lack of acumen in the business of healthcare.

Data limitations. Healthcare organizations often are limited in their ability to provide leaders with timely, accurate, and actionable information to support effective decision-making. While considerable data are collected from every facet of the organization, leaders are challenged to translate it into useful information and insightful action. Further, there is rarely seamless interface and integration between the disparate clinical, operational, and financial data collection systems and reports.

Financial language barriers. Beyond these common constraints, administrative leaders sometimes are reluctant to share financial information with their key stakeholders, particularly physicians, often out of concern about accuracy and the potential for misinterpretation. Inherently, this creates a language barrier between providers and financial managers.

Lack of acumen in the business of healthcare. The lack of understanding and the inability to translate clinical needs into a business case is a common source of tension among clinicians. At the same time, administrative leaders struggle with justifying additional and often unbudgeted expenses that support delivering highly effective and efficient care. The language gap is further exacerbated by a general lack of financial expertise in the business of healthcare. Critical financial decisions that affect the organization are often made in a vacuum due to limited discussion and deficient integration of clinical and financial data.

FIVE-STEP METHOD FOR MAKING AN EFFECTIVE BUSINESS CASE

The approach for making a sound business case involves five sequential steps:

1. Identify the quality improvement opportunity.
2. Calculate the cost of waste.
3. Determine the cost of the proposed solution.
4. Project the anticipated financial impact.
5. Calculate the return on investment.

After identifying the specific opportunity for quality improvement, such as an unmet need or inefficient process, leaders must calculate the current or projected revenue and cost associated with it.

Next, the anticipated cost of the proposed intervention must be determined. Based on a reasonable and conservative forecast, the estimated impact of the quality improvement must be considered in terms of finances, such as how much money the project will save or how much it will generate incremental revenue over a specified period. Lastly, the cost must be compared to the projected return expected from the proposed initiative.

STEP 1. IDENTIFY THE QUALITY IMPROVEMENT OPPORTUNITY

There is no shortage of opportunities for improving quality, enhancing the patient experience, and reducing waste in healthcare. Industry experts estimate that about one-third of the unnecessary cost in U.S. healthcare is caused by waste. Avedis Donabedian, in his foundational work, framed healthcare quality as a continuum, from structure to process to outcomes. Without the appropriate structure, such as the right staff, space, or equipment, the process of care delivery and ultimately outcomes of care are compromised.

When considering business case applications, leaders should first frame what aspect of the continuum is being addressed and why. This is commonly done by clearly identifying the specific problem that needs to be addressed. A well-written problem statement will create a compelling case that clearly identifies the central issue, including who is affected by the current situation and how. It should also have a "call to action" focused on why the problem needs to be addressed and by when. Leaders should resist the temptation to embed a solution into the problem statement at the risk of eliminating other potential viable solutions.

Often leaders rush to a single solution before completely understanding the problem they are trying to resolve. Identifying the goal for an initiative becomes easier once the problem is clearly defined.

An effective goal statement should include all of the elements of a SMART goal — Specific, Measurable, Achievable, Relevant, and Time-oriented — including what is going to be improved, how performance will be quantified, and what defines success with respect to performance or financial outcomes. Defining these directional statements is also important to engage key stakeholders.

STEP 2. CALCULATE THE COST OF WASTE

The next step in making an effective business case is defining and quantifying the missed opportunities to generate revenue or reduce the cost of waste from the quality improvement opportunity identified in Step 1.

The cost of waste, or the cost of poor quality, is the total measurable potential revenue or cost associated with the problem and project solution. Waste can be caused by clinically ineffective care or inefficient administrative processes. In contrast, revenue enhancement opportunities can be estimated from previously unavailable market growth opportunities, such as changes in a competitor's position or a new technology.

Identifying and quantifying the cost of waste, including revenue opportunities, can be a powerful motivator and catalyst for improving quality. Leaders may not understand the full scope or magnitude of a quality improvement opportunity unless and until it is quantified into a dollar amount.

Placing a dollar value on all quality improvement opportunities provides a common denominator to support comparing and prioritizing multiple and competing performance improvement initiatives. Estimating the cost of waste also helps translate patient safety and clinical care issues into the language of finance to which administrative leaders can relate.

STEP 3. DETERMINE THE COST OF THE PROPOSED SOLUTION

Identifying the cost of the proposed intervention or process improvement is the next step in making an effective business case for quality. It requires using available financial information and involves making some reasonable assumptions to project future expenses related to the project. All new costs associated with the project over a set time period should be considered, including one-time and recurring operating expenses.

The cost of existing internal resources that are reallocated to support the project typically are not factored into the cost estimation. These types of expenses are opportunity costs. An opportunity cost is the financial benefit given up from using an existing resource for another purpose.

For example, a salaried manager spends an average of 20% of her time per week verifying accounts receivable. If the business enterprise invests in an automated billing system that cuts the time that she spends working on the accounts in half, assuming her scheduled work time and pay aren't reduced, then the estimated cost from the time she saves is not an actual cost savings. However, if the time saved is re-allocated to other tasks that have a measurable effect on the bottom line, such as increasing revenue by working on overdue accounts receivable, then the incremental financial impact should be included in the calculation.

STEP 4. PROJECT THE ANTICIPATED FINANCIAL IMPACT

The most challenging step in the process for developing a sound business case is calculating the anticipated financial impact of implementing a proposed quality improvement initiative. This process should include a consistent and conservative method agreed-upon by the key stakeholders, including financial managers.

The financial impact should include all incremental costs and revenue over a set period, typically one to three years. However, in the case of larger capital project, this period can be extended to five years or more.

STEP 5. CALCULATE THE RETURN ON INVESTMENT

The final step for making an effective business case is determining the projected gain or return on investment from the proposed intervention. Return on investment is simply the financial performance or profitability of a project. It is the revenue the business enterprise gets back after paying for all expenses related to the project. ROI is typically expressed as a percentage and is calculated by dividing an investment's net profit (or loss) by its initial cost or outlay.

For projects spanning multiple years, some fundamental financial analysis is required where ROI is used in conjunction with the net present value (NPV) and the internal rate of return (IRR). The NPV accounts for differences in the value of money over time due to inflation and relies on a discount rate that may be derived from the organization's costs of financing. In contrast, IRR uses a financial analysis to estimate the profitability of a potential project. In general, the higher an IRR is, the more desirable the project or investment.

Both the NPV and IRR serve as uniform measures for evaluating and comparing a portfolio of projects to support prioritizing scarce resources. Any project or investment with a negative NPV or an IRR less than the cost of financing should be avoided.

CONCLUSION

Clinical leaders can develop the business case for quality as a useful evaluative tool to assess the financial impact of implementing a proposed project or initiative, integrating both quality and financial information. An effective business case is comprehensive yet simple to understand with conservative financial projections to support effective decision-making.

Monetizing the current cost of waste and a proposed quality improvement initiative are important assessing the impact of poor quality and prioritizing quality improvement opportunities.

The next article in this series will examine ways to identify the cost of waste and evaluate the financial impact of a proposed solution to improve quality.

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