

Healthcare Consulting | Valuation



Partner Insight Series:

# *The Importance of MORs and KPIs*

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April 18, 2023



# *How can Monthly Operating Reports and Key Performance Indicators help Management?*

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I recently read a book that postulates how to fix the U.S. health care system. I appreciated the author's concepts around using data to guide decisions, trying to take cognitive biases out of decision-making, and providing evidence-based guidance to caregivers. I don't, however, believe there is a recipe to "fix" the U.S. health care system. Instead, I believe positive change will result from innovation, disciplined management, continued improvements to care, and a focus on prevention and wellness. In today's article, I want to address a tool to support disciplined management – all wrapped in the form of what I've used for years – a monthly operating report (MOR).

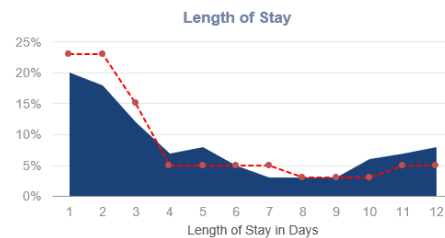
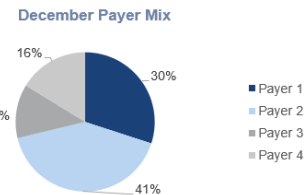
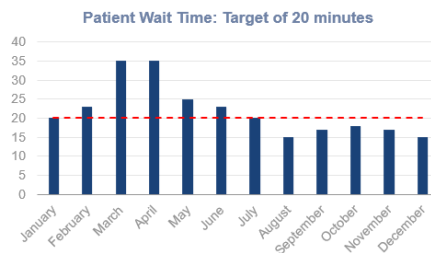
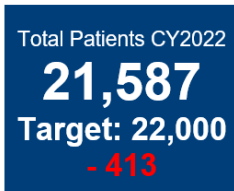
Just from reading the phrase "monthly operating report," many of you just yawned. Please hang with me. There can be real power in putting together an effective MOR. If your organization is performing well, you can celebrate success and strive to even greater heights. On the other hand, if your organization is struggling, you can identify specifically where deficits exist and work towards correcting them, where possible.

I have lived in both states – good times and bad times. In all of those instances, I have felt better because I wasn't guessing. I knew the data and the targets. Further, I knew why we either exceeded or missed the targets. There is a real sense of peace in just knowing. Putting together an MOR with a medley of key performance indicators (KPIs) and related targets is a foundational way to measure organizational performance and have an organizational snapshot in time.

## *Getting started*

Most operators have a monthly package they already put together for their healthcare organization. This likely includes financial statements, key volume statistics, and perhaps some clinical quality or patient satisfaction reports. This report is shared with the management team and ultimately provided to boards or governing bodies.

In each report, there are just a few key metrics stakeholders want to see such as EBITDA, net income, wait time, occupancy rate, net revenue, or patient satisfaction rates. An effective MOR summarizes these key metrics in a dashboard format and compares those metrics to either budget or to relevant targets. An example dashboard follows, but the specific metrics you look at should be customized for your organization and circumstance.



Key steps in initiating a monthly operating report include the following:

1. Pull key monthly reports together as soon as possible after month end.
2. Identify important metrics, targets, and variances.
3. Trend the data over time.
4. Report why variances exist and plan of correction where possible.

In establishing targets, it's important to find reputable benchmarks appropriate for your organization. Unreasonable benchmarks would be comparisons of dissimilar organizations (e.g., rural to urban, small physician groups to large physician groups). The metric, target, and benchmark all need to make sense for your organization. I also like to trend the KPIs to show how they are improving or declining over time. Many times, it's helpful to show metrics over 12 or 24 months to show seasonality, which is often a factor in healthcare.

Focusing on financial, operational, and some quality metrics is a great way to start. Next, I suggest looking at your organization's strategic plan. What are the key components? Most strategic plans focus on stewardship, engagement, quality, access, community, and growth. For each focus area, try to define relevant KPIs which can be objectively measured and tracked over time. Then, you can see if you are truly making progress or not.

## Variance analysis

Once you have your KPIs, targets, and trending assembled, it's important to address what the data means. Everyone can share numbers, but not everyone can adequately explain the story the numbers tell. Take some time after building the base report to analyze the positive and negative variances and reflect on overall meaning or trends. Is there something going on within a department or a group of physicians that is creating a positive or negative variance? Are the demographics of the community shifting? Are the economics of certain service lines evolving? Watch month over month trends and make sure that you understand how to respond.

From there, you can take it one step further. My good friend Dr. John Buck, who I've worked with previously in healthcare organizations, reminded me that I can't work on all things all the time.

Rather, he encouraged leaders to focus on the “Big Five.” Here, you select five things you are going to prioritize for the next month and be specific about how you are going to try to drive change in those areas. This approach helps people focus and actually make a difference in key areas rather than get overwhelmed by trying to improve everything at once. I would place my “Big Five” in the front of the MOR document so that people reading the report understood my focus areas for the next month. Generally, those priorities were in response to pressing needs identified in the current MOR.

## *Final Thoughts*

An MOR can be a simple summary of many complex moving parts within a healthcare organization. I like to track key metrics and be able to explain, in detail, why variances occur – even during the good times. I generally use spreadsheets and a PowerPoint deck to summarize everything. In this age of advanced analytics, some measurement tools can be automated; however, nothing can substitute for “making sense” of the variances and uncovering the reasons positive or negative trends are occurring. I encourage you to start small and evolve your MOR to be increasingly functional and helpful to you over time. Good luck!



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Kyle has over 25 years of consulting and operational experience working in healthcare and life sciences with public and private organizations across the nation. He is a former hospital CEO with experience running hospital groups, managing joint ventures, implementing new strategies, driving EBITDA enhancements, and creating positive organizational cultures. He has worked as a consultant within Big 4 firms focused on strategic planning, M&A, and operational improvements. Call or email Kyle if you need assistance with any of your healthcare challenges.