



## Eye Chart Productivity Improvement Case Study



Increase Your Odds  
of Success with  
Leadership Alignment

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## Eye Chart Productivity Improvement Case Study: A practical and applied method to quantify the impact that leadership performance and cultural engagement have on overall results

As of December of 2014, **Right People, Right Roles** has created over 500 Performance Management Eye Charts for healthcare organizations, including a total of 30,000 leaders and managers. During the last four years of longitudinal tracking, we have observed less than 5% of “existing and tenured” front-line managers improve their overall performance from the bottom quartile (Red zone) to the top quartile (Green zone). By existing and tenured, we mean a manager who has been appointed to a department/function for a reasonable period of time, 2 years or longer.

Typical odds of improvement considering all talent levels:

- Improvement within the original quartile zone = likely, 50%.
- Improvement of one quartile = somewhat unlikely, 25%.
- Improvement of two quartiles = unlikely, 10%.
- Improvement of three quartiles = very unlikely, < 5%.

We have also determined that if an existing and tenured **A** level, talented manager is failing in the Red zone or struggling in the Orange zone on their Performance Management Eye Chart, it is most likely that the degree of difficulty (obstacles) are high and these obstacles are usually outside of the manager’s span of control. (Refer to chart 1 for Leadership ratings A-D)

Logic dictates that if the obstacles were within a talented manager’s control, it would only be a matter of time before those obstacles were better managed. This logic makes diagnosis and prescription of coaching and action-planning easier and more consistent because the largest rate limiting factor is usually TIME. **A** Level Managers will act on and fix any problems within their span of control, typically within one year of appointment.

Obviously, there are many, many variables that can impact overall performance and economic value of a department and an organization. Any one factor taken to the maximum extreme can be extremely costly if mistakes are made or if performance and productivity is sub-optimized.

The following example can serve as a **conservative estimate** to show the impact that leadership performance and cultural engagement have on overall financial outcomes.

**Note:** We have found that it’s not practical to perform detailed Activity-Based Cost Analysis in every engagement. Therefore, we have simplified the process and estimates for people to best calculate the overall value added (or subtracted) and economic benefit derived from departments that are high-performing vs. those that are low-performing.

## **How much of a difference can an overall workforce improvement of one quartile of performance make for the average organization?**

It can be very significant if the service line or business unit is a high revenue generating department/function. The best practical and applied estimates we have been able to generate for human capital productivity and economic value added is an improvement range from a low of 7.5% to a high of 15% per quartile, multiplied by the entire fully-loaded cost of the workforce represented in each section.

### **It is typical to find that the lower half of the Eye Chart (those departments performing in the Red and Orange quartiles) illustrate the following characteristics:**

1. The departments tend to be “more difficult” departments/functions to manage (higher degree of difficulty).
2. The departments tend to have more employees; larger departments with greater spans of control are also more complex.
3. The departments usually represent a higher Revenue Generating ratio; they are departments that bill for revenue rather those that are an internal overhead expense.
4. The departments usually have leaders (front-line managers) that are less talented than the leaders in the top half of the chart.

### **We have also measured the following differences in performance outcomes typically experienced between the bottom quartile departments (Red) and top quartile departments (Green).**

1. There is approximately three times the voluntary turnover of employees between the bottom and top quartiles.
2. There is approximately 28 percentile points difference in average patient satisfaction.
3. The managers in the bottom quartile departments tend to miss hitting their budget projections by 8% or more compared to those in the top quartile.
4. The bottom quartile departments (in Red) become a disproportionate time drain on senior leaders, taking up to 75% of their time to manage.

We have found it best to treat and calculate each department and each quartile as equal for purposes of easier comprehension and estimates of value added or subtracted overall performance. Thus, the estimates are conservative and allow for a sound business case basis for decision making.

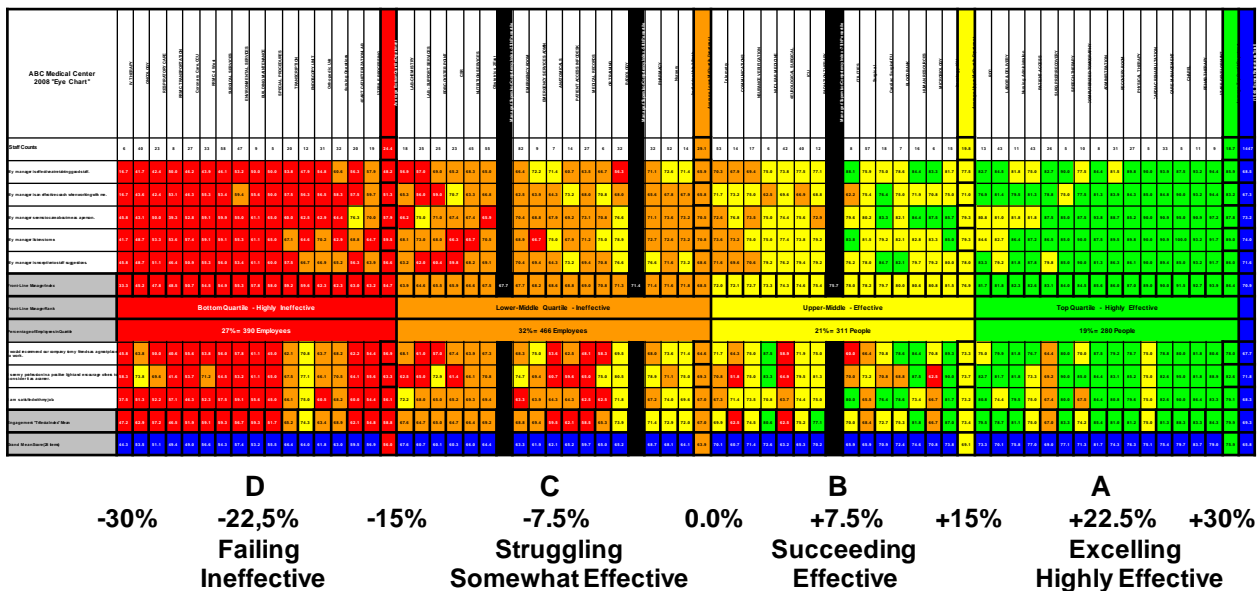
## Case Study Example

In the Performance Management Eye Chart represented below (an organization in the 53<sup>rd</sup> percentile of workforce performance, about average in the industry), the total range of workforce effectiveness (productivity factor) between the median department (assigned a relative value of 0.0%) and the average top quartile (Green area) is approximately +22.5%. Likewise, the average range of total workforce effectiveness between the median department and the average bottom quartile (Red area) is - 22.5%. The estimated overall value and economic benefit gain for a department moving from the average bottom quartile (Red) to the average top quartile (Green) is therefore approximately 45%.

Chart 1

### The Impact of Leadership Performance on Overall Results (one department at a time)

Where is productivity (value) being added or subtracted as a result of leadership and culture?



With this case study organization we can use the following assumptions:

- A typical community hospital at a regional medical center
- 2,000 employees total
- Employee survey response rate = 75% or 1,500 people with good validity and reliability
- Overall employee engagement is at the 53<sup>rd</sup> percentile (approximately average)
- Net operating margin = 1.8%
- Labor expense ratio = 55% (includes labor costs and benefits)
- Gross employee turnover = 20%
- Overall inpatient satisfaction = 55<sup>th</sup> percentile
- CMS quality ranking approximately the 60<sup>th</sup> percentile

## The distribution of employees (61 departments represented total) in each quartile of performance is as follows:

Productivity Factor: Quartiles represents an overall workforce effectiveness range of 7.5 - 15%.

- Bottom quartile (Red): 27% of employees (540 people)
- Lower middle quartile (Orange): 32% of employees (640 people)
- Upper middle quartile (Yellow): 21% of employees (420 people)
- Top quartile (Green): 20% of employees (400 people)
- Revenue Generating ratio: 62.5% of departments (59% of employees) in the Red and Orange quartiles (sub-optimized, unhealthy cultures)
- Administrative Non-revenue Generating ratio: 55% of departments in (41% of employees) in the Yellow and Green upper quartiles (healthy cultures)

### Improvement of just one failing department:

The example below shows the best estimate of the overall direct and indirect effectiveness of improving just one failing department (moving from Red to Orange):

- Surgical unit with 40 employees
- Front-line manager index score percentile rank = Bottom 2<sup>nd</sup> percentile
- Overall engagement “Trifecta index” = 19<sup>th</sup> percentile
- Grand mean percentile rank for department = 14<sup>th</sup> percentile
- Patient Satisfaction = 20<sup>th</sup> percentile
- Labor cost for the department = \$2,800,000
- Turnover for the department = 33% (13 people with an approximate direct and indirect replacement cost calculated at one times salary = \$910,000)

### Results of Improvement:

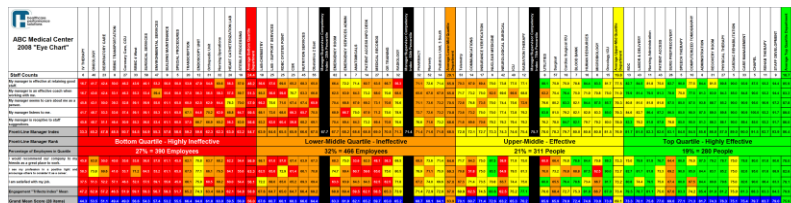
- **Moving up just one quartile** (from Red to Orange) could produce between 7.5% and 15% direct and indirect overall economic benefit (\$210,000 - \$420,000 per year).
- **Moving up two quartiles** (from Red to Yellow) could produce between 15% and 22.5% direct and indirect overall economic benefit (\$420,000 - \$630,000 per year).
- **Moving up three quartiles** (from Red to Green) could produce between 22.5% and 30% direct and indirect overall economic benefit (\$630,000 - \$840,000 per year).
  - To understand how and why this is a conservative estimate, if departmental employee turnover alone was reduced from 13 people to 8 people, from 33% to 20% (to the average rate for the organization), the replacement cost savings alone would be approximately = **\$350,000** (\$910,000 – \$560,000, assuming that the replacement cost is calculated at one times salary).

This replacement cost figure alone (\$350,000) represents 12.5% of the total labor cost (without benefits). If benefits were included, we would need to add an additional cost of approximately 27% of the labor amount.

**Keep in mind that this estimate doesn't even take other factors into consideration!**

There are three major categories where we observe both direct and indirect benefits of improving the leadership performance and cultural engagement in every department/function (see diagram below).

Direct and indirect benefits of improved leadership alignment and cultural engagement



Restoring Healthcare back to the Rewarding Calling to “Make a Difference.”



### **Improvement of all failing departments:**

The example below shows the best estimate of the overall direct and indirect impact of improving all the failing departments one entire quartile is estimated as follows:

- Bottom quartile (Red) 27% of employees (540 people)
- Front-line manager index score percentile rank = Bottom 8<sup>th</sup> percentile
- Overall engagement “Trifecta index” = 7<sup>th</sup> percentile
- Grand mean percentile rank for department = 9<sup>th</sup> percentile
- Labor cost for all the departments = \$35,100,000 (@ \$65,000 per employee)
- Turnover for all the departments = 30% (162 people with an approximate direct and indirect replacement cost calculated at one times salary = \$8,000,000)

### **Results of Improvement:**

- **Moving up just one quartile** (from Red to Orange) could produce between **7.5%** and **15%** direct and indirect overall economic benefit (\$2,632,500 - \$5,265,000 per year).
- To understand how and why this is a conservative estimate, if company-wide employee turnover was reduced from 162 people to 108 people, from 30% to 20% (to the average rate for the organization), the replacement cost savings alone would be approximately = **\$2,600,000** (\$8,000,000 – \$5,400,000). This **7.4%** figure represents the low estimate of overall productivity improvement in total workforce costs.

Given the complexity of calculating the overall value and economic benefit of improving human capital performance, we feel that the most practical and applied method of building the business case is to incorporate a workforce productivity improvement estimate that ranges from 7.5% to 15% per quartile improved. The model has been very consistent across of healthcare organizations of all sizes.

We have also found that the benefits of an entire organization moving the equivalent of three quartiles of performance (from the 25<sup>th</sup> percentile to the 75<sup>th</sup> percentile) essentially adds 4.0% net operating margin. This is a significant overall economic benefit to consider.



For more information, please contact us at: *Right People Right Roles* 406-582-8884,  
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