

Article 1 - A Balanced Score Card approach to practice management

Traditionally dentists were focused on becoming acclaimed clinicians and the commercial aspects of dentistry were given less attention. In the good old days a decent income was pretty much assured for a good clinician, where competition was a thing never heard of. Hence, quite rightly, everyone focused only on the clinical aspects of dentistry with little or no attention to commercial aspects.

However, in modern “twenty first century dentistry” business acumen is equally important as your clinical expertise to become a successful dentist. This doesn’t suggest an over emphasis on commercial aspects at the expense of clinical aspects, but suggests a right mix of clinical expertise and business acumen.

Historically the only aspect that dentists were concerned with was fulfilling statutory obligations i.e. preparation of the annual accounts and submission of the self assessment tax return. This I consider a business postmortem – where historic financial performance is assessed with a view of ascertaining how much tax you owe to the taxman.

This has been the practice for many years. Only a very few dentists were concerned with and aware of the financial performance of their practices and very much “turned on”. They were the successful dentists of the twentieth century - nevertheless they may not necessarily be so in the twenty first century!

Twenty first century business is all about making radical changes, whether it’s dentistry or accountancy or air travel. In my opinion, to operate a profitable and rewarding dental practice in the twenty first century your clinical expertise and good financial management techniques are not adequate. Instead you must have a well balanced approach to practice management which should address all clinical, financial and non financial aspects of dentistry.

In this series of articles on “balanced score card approaches to practice management”, I will highlight the importance of both financial and non financial aspects of good practice management which you should focus on to become a successful 21st Century Dentist!

This series will contain five articles. Each will cover the five aspects of the “balance score card approach to practice management” and I will provide useful tips where ever possible.

What is a balanced score card?

Until the late twentieth century, almost every business in the world was focused on measuring the financial performance. This was mainly due to the belief that good financial performance will ensure long term organisational success. This obsession was well supported by stakeholders, especially shareholders, who believed that good financial performance is the key to enhance the value of their investments.

But quite contrary to this well established view, Robert Kaplan in the late twentieth century introduced a concept called the “balance scorecard” which suggests measuring not only the financial performance but also the key non financial aspects of any business. Good financial performance is undoubtedly the key to increasing owners’ wealth, but good financial performance is determined by the underlying subtle non financial aspects that determine long term overall organisational performance and subsequent appreciation of owners’ wealth.

These key non financial measures include customers, people, operations and innovation. These four perspectives combined with financial perspective gave birth to the “balance score card” approach to performance measurement and businesses slowly but surely adopted this approach to performance measurement. This is quite evident from today’s marketing and general communiqué of all major businesses, where emphasis is given not only to financial but also to these key non financial aspects.

In my opinion, it’s not too late to adopt this approach in your practice management. In fact, this is the right time to use such new techniques in light of the changes taking place in UK dentistry.

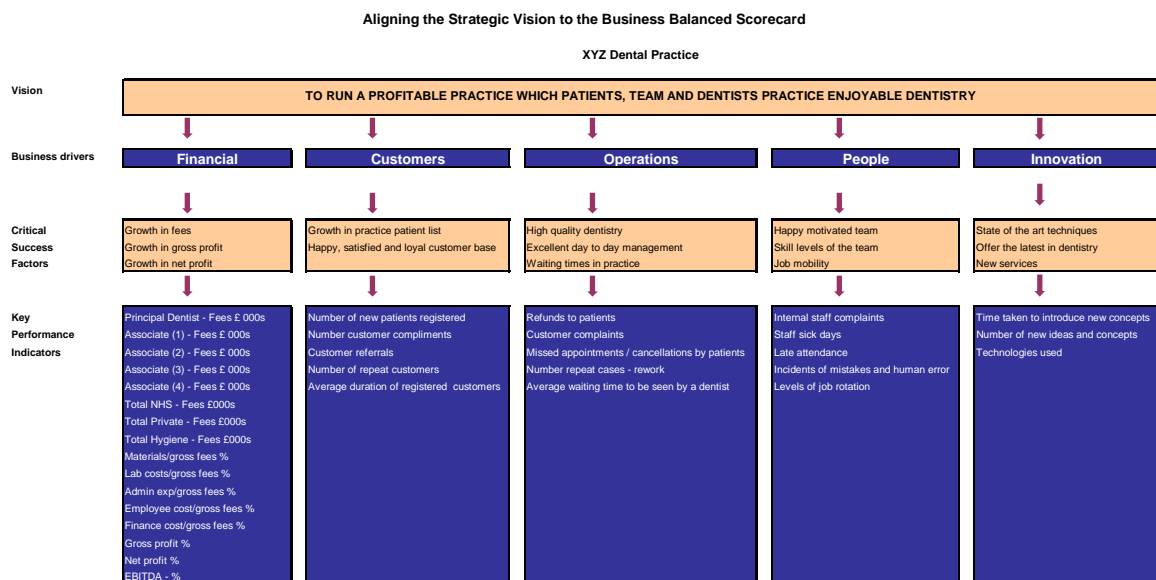
Any organisation should clearly identify these five aspects and most importantly it should identify the critical success factors for each of these. As the words suggest, critical success factors are the factors which determine the successful outcome of pre-determined targets for each of these five aspects.

For example, for a typical dental practice, the patient list size is one of the critical success factors (CSF) under a “customer” perspective.

Once you identify the CSFs for each perspective, it is important to identify the key indicators to measure the performance of these CSFs. In our example, if the patient list size is one of the CSFs for the “customer” perspective, then the number of new registrants in a given period is an ideal key indicator of the performance the CSF concerned. We call these “key performance indicators” (KPIs).

Therefore, to become a successful business the organisation should measure the performance of the CSFs of all five perspectives using the KPIs.

In dentistry, good practice management should revolve around all five aspects and in this article I will discuss in brief the financial perspective.



The financial perspective

Here, you should try to avoid the danger of measuring your financial performance by just reviewing your annual accounts; instead you should take a more proactive stance to measure financial performance on a regular basis, so that you have time to take adequate steps to put things in order where you think they are not.

From a financial point of view, the most important critical success factors are growth in revenue, gross profit, net profit and a healthy business balance sheet which should indicate that your business assets outweigh business liabilities.

Growth in revenue and profits will ensure that your efforts are adequately compensated and that the return on your investment exceeds that of the investment opportunities, both those which were available to you at the time of your initial decision and the opportunities available for you now. A healthy balance sheet will ensure that your long term existence as a business is not threatened by short term liquidity (cash flow) problems.

Before you identify the key performance indicators for each of these critical success factors; you need to be aware of your goals and objectives. This is because critical success factor progress should be quantified (measured) with the use of key performance indicators. Obviously, to judge whether a CSF has performed well or bad – using KPIs, we need to have predetermined targets against which the actual performance can be measured.

How to set targets – budget!

The best approach to set targets is to prepare a simple budget or a forecast. A budget is prepared in line with the business owner's long term goals and objectives and effectively it is a roadmap to achieve your long term objectives. For example, if you wish to record a fee income of say £ 1 million in ten years time then your yearly budgets should represent this long term ambition by setting appropriate targets for each year.

Depending upon the actual performance, usually budgets are revised in the subsequent periods and/or objectives and goals re-aligned to take into account the uncontrollable external environment.

Ideally, you should set a simple budget for each accounting year. This should detail your income, direct expenses, gross profit, practice expenses and the net profit. This can then be used as the yardstick to measure your actual financial performance.

For example, the net profit percentage as per the budget can be used as the yardstick to measure the actual net profit for given month. Here, the critical success factor (growth in net profit) can be monitored with the monthly net profit percentage (key performance indicator). If the monthly net profit percentage is not healthy then you can take necessary steps to identify why this is so and then draw an action plan to improve this in the forthcoming month(s).

Continuous review of performance

The importance of regular, if not monthly, performance measurement is that you have adequate time to take necessary corrective action to ensure that yearly targets set in your annual budget/forecast are achieved at the end the year. This approach will help you to realise your long term financial objectives as it takes a more practical proactive approach to

performance measurement than carrying out performance evaluation at the end of an accounting period, in the form of annual accounts.

Therefore, in essence you should identify your long term business objectives and goals, set annual budgets, identify the critical success factors for good financial performance and then measure them regularly using key performance indicators. This approach will help you to ensure that the performance targets for the financial perspective of your practice are met – at least partially if not fully.

By now I believe that you have a fair understanding of what is meant by a balance score card approach to practice management and in my next article in this series I will discuss in general why non financial aspects are so important in determining your practice performance, and the “customer” perspective in particular.