LINKING FINANCE STRATEGY AND EXECUTION IN HEALTHCARE

by Jay Spence
Introduction

Managing in uncertain times is becoming the norm for healthcare provider organizations. As industry reform and increased competitive pressures continue to squeeze already tight operating margins, the ability to effectively define, communicate and align the organization around strategy is becoming a business imperative. The process is no longer a simple financial forecasting exercise; instead, strategy execution is a process that is evolving into a more integrated financial and operational planning activity that touches the entire organization.

In this paradigm where strategic plans are increasingly based on their financial impact, the role of Finance is quickly evolving from a back-office function to a more strategic advisory role. At the same time Finance is being asked to be more agile and responsive to organization needs, the forecasting and planning models are becoming more complex and sophisticated.

This paper explores how these increased demands are acting as a catalyst for organizations to (re)evaluate their existing financial management processes and to implement frameworks and tools that support and align business in 3 critical areas:

- Strategy Formulation – Where do we want to go as an organization?
- Strategy Alignment – How do we get there?
- Performance Monitoring – Are we achieving the results we planned for?

The Influence of Industry Reform on Healthcare Strategic Planning

The notion that industry reforms are influencing strategic and financial planning activities in healthcare provider organizations is not new; however, the magnitude of industry change coupled with the readiness of organizations (notably hospitals and health systems) to manage that change has stirred much debate. In reflecting back on the evolutionary reforms in healthcare, the role of Finance in guiding and directing strategy has increased.

A new era of Healthcare Reform

The most recent industry reforms are promising broad cuts to hospital reimbursement payments and will increasingly tie reimbursement payments to quality measures. This is placing an increased demand on hospitals and provider organizations to operate under tight operating margins, reduce cost structures, while sustaining high quality of care outcomes. This dynamic has resulting in stronger emphasis on the strategic planning function to effectively define and align the organization around activities that are truly transformational. The outcomes related to strategic planning must produce clear directives in the form of actionable initiatives that are focused around growth, cost containment and process improvement. These initiatives are designed to sustain and improve financial outcomes in spite of downward pressures to hospital reimbursements. All of this is driving the demand for more collaborative planning using more integrated performance management tools.

Are organizations ready for this change? Evidence suggests most are not. In a 2012 survey of 100 Finance professionals, Axiom EPM found that 46% of respondents prioritized the development of a tools and techniques to drive a stronger link between strategy formulation and execution as their top initiative.

In the next year what area is your Finance team looking to improve upon the most?

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing a strong link between strategy, plans, budgets and forecasts</td>
<td>46.8%</td>
</tr>
<tr>
<td>Publishing more relevant information to users</td>
<td>44.6%</td>
</tr>
<tr>
<td>Reducing the time it takes to complete the budget</td>
<td>43.1%</td>
</tr>
<tr>
<td>Getting a better handle on measuring and understanding profitability</td>
<td>25.0%</td>
</tr>
<tr>
<td>Further define key performance indicators (KPIs) and operating metrics</td>
<td>24.6%</td>
</tr>
<tr>
<td>Deploy rolling forecasts</td>
<td>23.3%</td>
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Enabling More Agile and Responsive Enterprise
Performance Management

The term ‘enterprise performance management’ (EPM) is used to reference a broad set of integrated financial planning and performance monitoring processes, including multi-year financial forecasting, capital planning, detailed budgeting, financial reporting, managerial reporting, and increasingly cost accounting. However, in most hospitals and health systems these functions aren’t well integrated at all. These planning activities are supported by a patch-work of separate proprietary applications with rigid modeling tools and fragmented data sets. It is this fragmented set of applications that works against Finance requiring more manual intervention thus reducing the time for more value-added analysis and decision support activities.

Also common in healthcare financial planning is the dependence on stand-alone spreadsheets to support sophisticated forecasting & budget models. As the business logic and drivers for these plans get more complex, existing applications and even newer EPM technologies simply do not have the level of sophistication and control that Finance teams require. As an example, in a 2012 survey of 400 finance professionals conducted by Business Finance magazine and BPM Partners (The Pulse of Performance Management 2012), of those who had recently invested in a new EPM platform, over 80% still leveraged off-line models to supplement their planning processes.

For Finance to deliver more agile and responsive EPM capabilities, a platform approach is needed. While process automation is vital, it is equally important to have a platform that can scale and evolve to address the ever-changing and increasingly sophisticated business modeling that is required. In evaluating a platform approach to EPM, Finance teams are evaluating capabilities to support 3 critical financial management functions – strategy formulation, strategy alignment, and performance monitoring.

Strategy Formulation

The first financial management function needed to link strategy and execution is strategy formulation. The tools and activities used to support strategy formulation should directly answer the questions – Where are we going as an organization? and What initiatives related to market and growth are needed to get there? Hospitals and health care providers are commonly focusing on the following three areas as part of strategy formulation – costing & profitability, what-if modeling, and capital planning.

Measuring Cost and Profitability Trends by Clinical Service Line

Cost accounting is quickly becoming a foundational element of EPM in hospitals and healthcare provider organizations today. Knowledge of volume, cost and profitability trends by patient population and clinical service line are vital inputs to strategic, capital and tactical (process improvement) activities. For many organizations, enabling accurate and repeatable cost accounting has meant migrating off antiquated applications to embrace newer technologies that can improve collaboration with manager’s and offer flexible costing methodologies, including time-driven, RVU’s based and direct cost methodologies. And as clinical services become increasingly specialized, many organizations are looking to leverage historical reimbursement and utilization profiles by service line to efficiently and accurately project the bottom-line impact of volume and mix changes by clinical service.

Performing Dynamic "What-if" Modeling and Scenario Analysis

Financial forecasting is an increasingly important component of the strategy development process. And given the level of uncertainty in the healthcare industry and all of the external factors that impact healthcare provider organizations today, more demands are being placed on Finance professionals to perform dynamic “what if” modeling and show alternative views of the future. This includes layering the financial impacts of including (or excluding) strategic initiatives such as launching new service lines or expanding facilities. Modeling the uncertain future has become a competitive advantage for hospitals today, allowing them to prepare for potential changes and respond more nimbly when changes do occur.

When attempting to forecast and model varying scenarios, start with a base case given current trends and future expectations and then ‘layer on’ the impact of discretely modeled ‘initiatives’. While difficult to do using standalone spreadsheets, scenario modeling and forecasting of varying
versions of growth and cost containment initiatives can be done simply and timely leveraging more modern solutions. Using this approach, the modeling of each discrete initiative can be modeled in detail and accurately so the go-forward impact is well-understood. Scenarios can evaluate the right ‘mix’ of activities to support business and financial goals.

Allocating Capital to Align with Strategic Goals
Without question, the process of capital planning has become an increasingly strategic function for hospitals and health systems. If done effectively, the allocation of capital dollars to projects - across construction, medical equipment and IT-related categories - can manifest into a true competitive advantage, or perhaps represent a lost opportunity. Few would argue that the ‘right’ investments in technology and facility related upgrades can positively impact the process and quality of care. The challenge for many organizations is they lack the enabling tools and frameworks to streamline the process of initiating, evaluating, approving, and then monitoring capital projects that best align and support the organization’s overall strategic plan.

What makes this such a challenging process for so many? For those initiating requests and advocating specific projects, often times the award process is not based on merit, rather done on a ‘first come, first serve’ basis. Transforming the process should address the following areas:

1. **Initiating New Requests:** By standardizing the ‘input form(s)’ associated with all new capital requests, you can structure how proposed projects will be evaluated across financial and non-financial measures. Initiators should be guided with prompts or ‘comments’ fields to define the core elements of the project in a consistent manner. Examples included Project Owner and Sponsor, Spend Category (i.e., Construction, Clinical IT), Justification, Capital Needs (current and future years), and Strategic Goal Alignment.

2. **Reviewing Submissions:** Especially for larger capital requests, conditional workflow tools should be used allowing for the automation of alerts and notifications to key contributors when their input is needed. As an example, large technology projects might need to go to IT and Legal for evaluation before finalizing. In doing so, these ‘expert’ reviews ensure that each project is complete and accurate.
3. **Evaluating and Approving Projects**: By having access to a single source of consistently defined project submissions and effective reporting tools, the evaluation committee(s) can effectively review and compare requests. Ideally, approved projects will create a portfolio of investment that span construction, IT and equipment investment.

4. **Tracking Progress**: By having access to a single source of consistently defined project submissions and effective reporting tools, the evaluation committee(s) can effectively review and compare requests. Ideally, approved projects will create a portfolio of investment that span construction, IT and equipment investment.

**Strategy Alignment**

Defining the strategy is the first step, but without execution it’s a fruitless exercise. Finance plays a critical role in helping to translate the impact of defined strategies on operational and tactical plans. These activities help to guide the organization to answer the question – how do we get there? Hospitals and health care providers are commonly focusing on two areas as part of strategy alignment – planning approaches and initiative-based planning.

**Incorporate Statistically-Driven Planning Approaches to Streamline Departmental Planning**

For many organizations, the use of stand-alone spreadsheets or rigid planning applications has relegated the planning function to be more of a bottoms-up, data collection activity. In turn, the ability to adjust the plans and account for strategic initiatives (i.e., additional hospital capacity) or baseline projections related to volume or rate changes across revenue and expense plans becomes a very manual and time-consuming process. In contrast, statistically-driven planning models are effective because they leverage relationships that exist between volume drivers – typically by patient type (Inpatient vs. Outpatient) or increasingly by Service Line (Cardiology vs. Oncology) – across revenue and departmental plans. The benefit is that changes are effective made globally and can easily flow-thru net revenue plans, as well as, departmental workload, labor and expense plans. Increasingly Finance teams are leveraging detailed patient-centric data to establish how the change of ONE CASE in each clinical service line, would impact departmental workload and payor level reimbursement profiles.

**Initiative-Based Planning**

Initiatives provide the linkage to translate high-level strategy into actionable operational plans. However, incorporating the ‘impact’ of approved initiatives is often a time-consuming and manual effort. Dynamic planning models are increasingly incorporating the ‘initiative’ as a planning dimension. This allows the cross-departmental initiative to be modeled discretely, and in detail, and layered into the baseline budget model as an incremental expense. The benefit is two-fold – 1.) Department Managers can clearly identify the impact that each initiative is having on their final budget targets, and 2.) Initiatives can be changed efficiently if underlying assumptions prove invalid.

**Performance Monitoring**

To effectively manage established, defined strategies and financial plans, they must be continuously monitored. Healthcare finance professionals must answer the following questions to determine their success - Are we achieving the results we hoped? and Do we have visibility into where outliers exist and why? The techniques are being leveraged by hospital finance teams to better understand their success in executing their defined strategy – rolling forecasts, reporting, and alerts/notifications.

**Rolling Forecasts**

Finance teams are embracing, and benefitting from, rolling forecasts as a way to monitor and trend performance against established financial targets. Actual and monthly projections out 18 months provide a trended view of performance, typically represented at an entity level. These models help assess current realities and can influence longer-range (multi-year) projections, as well as, detailed operational plans. These tools help Finance monitor more effectively where established planning assumptions may be inaccurate and therefore more proactively address corrective action plans or even re-forecast where needed.
Role-Based Scorecards, Dashboards and Mobility

Increasingly Finance teams are becoming stewards of data that guide business decisions - from cost and profitability analytics by clinical service line to target staffing calculations at a department manager level. The notion of information deliver by ‘role’ is important to ensure end-users aren’t overloaded with information, rather they are directed with the right information, at an appropriate level of detail to direct decision-making. Tools that can visualize data and allow for mobility (i.e., delivery via an iPad) is an important compliment to traditional management reporting.

Alerts, Notifications and Comments Collection Tools

The ultimate goal of any performance monitoring function is to establish clear visibility of outliers to plan across management levels. However, all too often, reporting becomes a one-directional dump of financial and operational statistics that poorly highlight ‘what’ is wrong, but (more importantly) offers no feedback loop to more senior leaders as to ‘why’. Best practice approaches leverage alerts to highlight where variances exist, incorporate notifications to ‘push’ (i.e., via e-mail) to stakeholders, and provide a vehicle to collect ‘comments’ and ‘action plans’ on high-threshold outliers. This creates a stronger closed-loop reporting cycle across management levels within the organization.
About Axiom EPM

Axiom EPM offers solutions for budgeting and forecasting, reporting and analytics, strategy management, capital planning, consolidations, profitability and cost management on a single integrated platform. Axiom EPM’s flexible, scalable solutions address the complicated finance needs of healthcare organizations provides finance executives with the tools they need to improve corporate performance. Axiom EPM embraces and extends familiar Microsoft Excel® functionality, allowing finance professionals to manage data in a familiar environment – while providing unmatched modeling flexibility and enterprise performance. Its applications promote end-user adoption as well as actionable participation across business processes.

In addition to solutions, Axiom EPM offers expert consulting and industry leading customer support. Recently, Axiom received a perfect (5.0) customer satisfaction rating in the BPM Partners Pulse Performance Management 2013 survey, which examines vendor solutions, industry trends, and offers end users guidance on solution selection and implementation. It was the first-ever perfect rating in the study’s ten year history.

Budgeting & Reimbursement Modeling
Axiom EPM enables a statistically driven approach to hospital budgeting. Finance can easily model the impact of volume, rate and efficiency assumptions across revenue and expense plans with multiple versions or scenarios. And because all computations are clearly presented in an intuitive user-interface with simple visibility to modeling logic, the buy-in and ownership over resulting plans increases. Axiom EPM also streamlines and integrates the process of modeling net patient revenue with the overall expense planning process. This enables the automatic flow-thru of changes in volume, payer mix and reimbursement rates to impact the overall plan.

Financial and Management Reporting
Axiom EPM’s built-in reporting application provides executives and managers timely access to the financial and management reports they require in one trusted source. With highly flexible and configurable formats, reports become actionable: trends and variances-to-plan are summarized and easily identified and drill-thru capabilities support root-cause analysis. Interactive reports can be accessed online through the Web-client, or automatically distributed through offline delivery methods (including e-mail).

Strategy Management
Axiom EPM helps organizations align within their human and capital resources around the organizational initiatives that will best align within with their strategy. The solution enables executives to evaluate trends in key performance indicators or perform forward-looking modeling to highlight the impact that internal initiatives or industry trends have on the business.

Capital Planning & Tracking
Axiom EPM streamlines the capital planning and capital allocation processes for IT, infrastructure and equipment needs. Configurable modeling templates capture attributes associated with each proposed project. Robust tracking and reporting tools give visibility to project status, identify on-going capital commitments, and track capital spending by category. Tracking tools also provide visibility into actual versus approved spending by project.

Cost Accounting and Service Line Analysis
With Axiom EPM’s Cost Accounting and Service Line Analytics solution, healthcare organizations can take advantage of patient data to drive budgets for strategic forecasting. Axiom EPM enables strategic data such as service line cost and profitability analytics to become a part of an integrated financial planning and performance monitoring solution. Robust, multi-dimensional reporting provides insight into the volume, cost, revenue and margin trends that influence the bottom-line. With this insight, key assumptions related to growth, cost and revenue can be modeled to support sound strategic and tactical planning.

Productivity Monitoring
Axiom EPM’s productivity management solution provides front-line managers with accurate views of efficiency variances, available bi-weekly or daily. Flexible report layouts ensure that computations are clearly presented and
understood. Designed to improve the feedback loop, the solution enables input of comments and statistics from managers to facilitate clear visibility across stakeholders regarding performance trends and corrective actions.

**Conclusion**

As industry reform continues to evolve, more is being asked of Finance professionals than ever before. The complexities and uncertainty that exists in healthcare today is demanding Finance be more agile and response to organizational needs. As Finance teams evaluate their existing performance management solutions, both data integration and process automation challenges exist. And as planning frameworks become increasingly more integrated across financial and patient centric-sources, the level of modeling sophistication will continue to increase. To help navigate this change, it is requiring Finance to shift away from traditional IT-centric or hard-wired applications and embrace more agile planning models designed to grow and evolve as planning needs change. And they inevitably will change.