



whitepaper

Speak Their Language: Bridging the Gap Between Financial and Operational Planning

Leverage cost accounting data to align the financial plan with operations, to boost accountability and to drive better results



Identifying the Language Barrier

As organizations work toward a more agile, accurate planning process, there remains a gap between the traditional budget of the past and a better approach, one that works to align finance leaders with clinical operations.

Traditionally, finance and clinical operations teams have struggled to speak the same language. Finance speaks in terms of cost centers, accounts and net income, while clinical operations speaks in terms of patients, procedures, outcomes and care pathways. This language barrier makes it nearly impossible for the two to align and execute on a single plan.

As the steward of financial responsibility in the organization, it is the job of finance leaders to engage operations and drive their ownership of the financial plan. It is the responsibility of the finance team to bridge that gap.

Finance must reach out and make operations part of the process, doing the work to engage the organization. The finance team is responsible for learning to speak the language of operations, to encourage them to commit to targets within their control, and to translate that commitment into a financial impact. Only then can the finance team begin to hold clinical operations accountable to the plan.

In this whitepaper, learn ways that the finance team can bridge the gap and find new ways to understand, engage, and empower clinical operations—leveraging their insights to create actionable, aligned financial plans with less drain on the organization.

Using The Rosetta Stone: Cost is the Key

The key to “speaking the same language” is leveraging a dataset that is not often associated with financial planning: cost accounting. Most healthcare organizations have teams dedicated to allocating general ledger and payroll data to patients and procedures every month. The accuracy and sophistication of cost accounting systems has been increasing rapidly, particularly in the last few years.

In 2018, HFMA and Strata Decision Technology partnered to create their open-source, advanced cost accounting adoption model, built and designed for over 200 leading healthcare delivery systems but released to the market as an open-source tool available for every healthcare provider. Serving as a tool for assessing current cost accounting methodology, benchmarking against peers, and following a roadmap to forge ahead, the [HFMA-Strata L7 Cost Accounting Adoption Model \(L7™\)](#) has provided healthcare organizations with an industry standard for leveraging cost accounting in a much more strategic fashion. While these changes have occurred in the market, and organizations are improving their cost accounting data, few organizations leverage this rich dataset in their

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planning process.

The good news is that while it may sometimes seem as though the finance and clinical operations teams are standing on opposing sides of a gap, shouting at each other in different languages, these two groups often understand that they benefit from a shared goal.

It may not seem that clinicians are engaged in leveraging cost data to make important and strategic financial decisions, but physicians are increasingly willing to partner with financial managers and merge knowledge to help create improvements. With the popularity of sophisticated cost accounting increasing, there are numerous examples of clinicians willing to participate and engage with the cost data.

When interviewed by Becker's IT & CIO Report, OSF's Vice President, Financial Planning & Analytics Kirsten Largent spoke to similar needs. The [interview](#) explores big challenges in healthcare—namely, how to best leverage the organization's robust wealth of analytics.

Many financial leaders in healthcare today recognize the need to “business partner with our clinicians and operational leaders, to help them better understand financial information,” Largent says. The cost crisis is one understood at either end by clinicians and finance leaders, and one that requires partnership to leverage our unique insights and perspectives, and to drive change.

Organizations are finding new ways to partner with their clinical operations and realize cost reductions, higher value of care, and continuous improvements. According to [this Health Affairs article](#), surgeons at six major health systems were asked to identify the cost of 143 commonly used orthopedic devices... and couldn't. Fewer than one in five could estimate the actual cost within 20 percent accuracy. But, despite the inability to estimate the cost of these devices, more than 80 percent of those same doctors said that they would consider cost one of the key criteria in choosing a device, if they had access to the information.

Physicians are willing to consider financial implications of the decisions they're making each day, and they want to understand cost. But more and more, the responsibility to leverage clinical insight to drive financial impact is not just on clinical staff. When developing a financial plan, leaders need to think about ways to leverage accurate clinical data and consider developing meaningful plans with meaningful assumptions owned by individuals—considering where operations is coming from to help guide them toward where they need to go.

To encourage the participation of clinical operations staff in the financial planning process, financial leaders will need to speak the clinical language. Rather than expecting clinical operations to plan in terms of “departments” and “accounts,” assumptions will need to be considered in terms of utilization, care pathways, patients, and procedures. The solution to engaging clinical operations staff lies in translating clinical decisions into financial impact, taking advantage of accurate cost data to bridge the gap.

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Leveraging Cost Data to Align Teams

To put it simply, using cost accounting data to drive the planning process is essentially the reverse of the cost accounting process. Cost accounting at its core uses historical weighted patient and procedure volumes to allocate cost from the financial sources of truth to the patient datasets as accurately as possible. When planning, it's about predicting future patient and procedure volumes, applying historical costs per unit to predict the financial impact of the patient and procedure changes. While the concept is simple at its core, it can present several challenges.

The most significant challenge for organizations trying to leverage cost accounting data in their planning process is the sheer amount of data involved. Many organizations start down this road to find that the granularity of the volume plan required to leverage the cost data is unmanageable. The key to planning at this level of granularity is to make the data do the work. For example: for many organizations, plan procedure volume for each department represents millions of data points. The key is to leverage the historical cost accounting dataset to calculate on average how much activity each patient type (service-line) requires for a given procedure with in a department. Let the historical dataset provide the baseline utilization per patient and engage clinical operations to review the plan and inform the finance team of changes to procedures or care pathways that will affect the planned volumes.

Another challenge is aligning two groups that are traditionally separate at many organizations: Finance & Decision Support. Finance is typically responsible for building budgets and forecasts for the organization, while decision support is traditionally responsible for running the cost accounting processes. Many times, these groups have developed separate philosophies on planning methods within their own silos. Examples include Variability Percentages, Cost Drivers, Allocation Methods, Accounting Reclassification.

In order to effectively leverage cost accounting data in the planning process, these two groups must align. This is not easy and often requires long philosophical debates. While challenging, most organizations who go through the process agree that they are in a better place afterwards.

Once the finance teams are aligned and the data challenges are overcome, it's about clinical operations education and engagement. Start by helping them understand and validate their cost data. The more accurate and trusted the cost data is, the more accurate and accountable the plan it produces will be. Challenge operations to understand the financial impact of each decision they make. To drive effective process improvements, finance teams must start engaging clinical operations using language that makes sense to them—creating a financial plan that translates cost data

and clinical realities to financial impact.

The Payoff: An Actionable Plan

Putting in the work enables managers and front-line staff to feel more accountable to the plan because they actively participated in creating it and committed to the plan in terms they understand. They built it, they own it.

By leveraging the historical relationships in the cost accounting data to build the plan, it is much more accurate. For example, shifts in patients and procedures volumes immediately translate to different supply and drug utilization patterns which are reflected on the income statement. Without the patient and procedure level data, the impact would need to be translated to the income statement through an analyst's back of the envelope calculation.

A well-developed, actionable plan requires accurate cost data, clinical data and expertise, taking advantage of clinical operations and the knowledge they bring to the table rather than demanding that clinical leaders shift perspectives while doing what they do best: delivering incredible patient experiences every day in the hospital.

While finance teams and clinical operations may often speak different languages, both groups are coming to the table with the same end goal: to drive value. To encourage the successful financial performance of the hospital, financial leaders will need to structure a financial plan that lets their clinical staff continue to do what they do best: provide high-quality patient experiences.

Bridging the Gap with Advanced Analytics

Still sound daunting? We're here to help!

StrataJazz® OnePlan™ is an integrated cloud platform for advanced financial planning for hospitals and healthcare delivery systems. Using StrataJazz OnePlan to leverage advanced planning methodologies like Patient Activity Flexing, healthcare organizations can plan by engaging front-line staff to drive improvement. This planning solution was built from the ground up to leverage cost accounting, enabling participants in the planning process to speak their own language.

Patient Activity Flexing takes patient and procedure mix into account by leveraging cost accounting data. Using Patient Activity Flexing to build the budget allows for more accurate predictions of supply and labor costs when making service and utilization assumptions. When tracking the budget, Patient Activity Flexing eliminates variances explainable due to patient mix shifts from managers targets. By leveraging the rich cost accounting data already available in the StrataJazz platform, Patient Activity Flexing allows for a more data-driven, automated approach to building the financial plan.

Over 200 health systems and 1,000 hospitals are already utilizing the single, modular, cloud-based [StrataJazz® platform](#) to drive their financial planning, analytics, and performance management. Providers can rapidly simplify and streamline how they plan, budget, forecast and manage their operating and capital expenses, resulting in a planning process that is more efficient, accurate, and agile.

Leading healthcare organizations have shared that the ideal state for financial planning unifies the disparate processes and plans under a single model, uses a consistent set of definitions, and maintains a consistent level of detail. OnePlan is a new approach to financial planning that helps organizations to achieve this, integrating all aspects of financial planning into this approach.

To learn more about Strata Decision Technology and our cloud-based, modular platform, visit [our website](#).

