

Aligning Hospital Strategy and Finance for Success with New Business Initiatives

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Due to rapid change in healthcare delivery, hospitals and health systems must implement complex strategic plans aimed at serving patient populations in their communities. Use of advanced techniques and tools with the right capabilities can help executives track and balance interdependent priorities—all while managing costs and optimizing care quality. Current priorities often include enhancing primary care access to offer consumers greater convenience, developing relationships with post-acute and other care-continuum partners, acquiring physician practices, and investing in virtual and IT infrastructure.

Strategic business decisions should be data driven and finance professionals must continue to play an integral role from the earliest stages of strategy formulation. To truly be value-added, analyses supported by finance should go beyond projecting financial outcomes of various scenarios and combinations of scenarios. They must identify trends and analytics that provide context to business decisions, support implementation of selected decisions, and provide a basis to monitor operating and financial performance as initiatives advance.

An increasing volume of complex financial and operational data is required to support such analyses. In addition, plans often must be reevaluated on an ongoing basis to ensure they align with marketplace dynamics, shifting competitive forces, and a changing regulatory environment.

Capabilities for Change

To effectively convert strategy to actionable and sustainable operational initiatives, organizations need systems that enable them to:

- Communicate strategy in the form of quantifiable business goals
- Promote ownership and accountability of initiatives at the operational level
- Identify key, measurable milestones that define achievement of those goals
- Provide monitoring functions and visibility into progress

To define, articulate, and execute a strategic plan, the following four capabilities are essential:

Multi-year financial planning. The current healthcare environment requires that financial planning be agile and responsive to industry and operational changes. Projection tools and techniques must have dynamic scenario and initiatives-based planning capabilities. For example, organizations should be able to model the future impact of business initiatives, including evaluation of each as a stand-alone initiative or various combinations of initiatives (i.e., portfolios).

Dynamic reporting to inform decision making: Access to the right metrics to guide strategic decisions is more important than ever before. Organizations need the ability to assess performance in a timely manner using a range of measures, such as quality indicators, patient satisfaction scores, and patient- and population-level cost and profitability analyses.

Initiative planning and tracking. As organizations move past strategy formulation into implementation, software tools should help turn high-level strategy into actionable operational tactics and plans. This capability allows healthcare leaders to establish the owners, milestones,

budgets, and achievement goals for reaching specific strategic objectives. Access to tools of this kind also serves as a mechanism for automating progress reporting across all stakeholders.

Key performance indicator monitoring and scorecards. Organizations should have both short- and long-term monitoring capabilities that allow them to gauge performance against defined business objectives. For example, scorecards can help organizations understand performance across multiple measures at a given point in time, while tools appropriate for longer-term monitoring can help assess performance trends over months or years.

These monitoring capabilities help healthcare leaders identify critical factors, such as those that may be contributing to underperformance in a particular program or business initiative. Tracking performance also allows for greater accountability and transparency and more informed decision making in terms of how to make mid-course adjustments or whether to expand or discontinue an effort.

A Formula for Success

For example, a four-hospital health system considered expanding its telehealth services. The goals were to target diabetes patients who were identified as being at high risk for developing complications and to help those patients better manage their disease. Using its multi-year financial planning capabilities, the health system projected that, after five years, the program would generate an estimated \$30,000 in annual savings from reduced emergency department (ED) visits and inpatient admissions, and as much as \$50,000 annually after seven years. When combined with other initiatives, projections also showed that initial losses from implementing the telehealth program would be offset with revenue from an expansion of orthopedic services at two of its facilities. The expansion initiative, now in its fourth year, is generating better-than-projected revenues and resulting net impact.

To properly gauge performance of the diabetes management telehealth program, the organization established key performance indicators, such as hospital readmission rates, and patient participation and compliance measures. Armed with a system providing dynamic reporting capabilities, leaders were able to assess performance over time along a broad range of metrics.

As the organization moved to implement the program, its planning and tracking tools provided a means to define associated initiatives. For example, one initiative aimed to engage ED and primary care physicians throughout the region to help identify diabetic patients who qualify for the program and encourage them to participate. A second initiative focused on recruiting two physicians and five nurses to provide direct care management services for the telehealth program. Each effort had unique owners, milestones, and established targets linked to the broader business objective.

Once the program was operational, the organization was able to monitor progress using key performance indicators and scorecards. The ability to drill down into the details of initiative operations provided a context for commentary and action plans. This framework promoted accountability and ownership, and helped guide proper executive attention and resource allocation for the program.

Tools help to ensure that strategies are aligned at the operating level, yielding achievable and sustainable initiatives. The effective use of initiative-based planning and tracking tools enables executives to set clear directives and action plans that are tied to key business transformation activities related to growth strategies, cost reduction, and process improvement efforts. The four essential

capabilities described here allow organizations to drive success with interdependent strategic business initiatives.

For more information about Kaufman Hall's software, please contact Russ Anderson at randerson@kaufmanhall.com or 847.441.8780.

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