



# Strata Decision

T E C H N O L O G Y

## Six Lessons from 200 Healthcare Delivery Systems on Moving from a Traditional Budget to Advanced Planning

**A**s hospital and health system leaders around the nation work to adapt to industry changes by retooling their organization's approach to care and business operations, one critical lever is hiding in plain sight and often gets overlooked – the budget. But that's beginning to change.

Strata Decision Technology recently conducted an assessment of 200 healthcare delivery systems to assess more effective approaches to budgeting and, ultimately, performance management. Over 40% are moving to what is now being called "Advanced Planning", applying an approach to creating a budget that is more accurate, efficient and agile.

While provider organizations took steps to transform business models, few had re-considered how they create their budget to begin with, opting instead to adhere to tradition. This has resulted in a huge disconnect with budgets that are often way off the mark and out of date as soon as they are finalized. The bottom line is that the traditional approach to creating a budget in a hospital or health system is ill-suited to support a complex organization in a dynamic market.

The results of a recent nationwide survey of providers conducted by Strata Decision Technology, in collaboration with *Becker's Hospital Review*, bear out this trend. In the survey, more than 83 percent of respondents said their organization's budget was out of date within the first six months of operations. More than 43 percent said their budget was out of date within the first quarter.

The annual detailed budget process historically embraced by provider organizations isn't suited to the speed of change in healthcare. Results from the survey outlined some of those changes. For example, 65 percent of respondents said their organizations were working to expand physician practices and 50 percent said they were expanding telehealth services. For provider organizations to expand services, improve preventive care and maintain

fiscal health, budgets must become simultaneously accurate and adaptable. Modern healthcare budgets should rely on procedure-level cost data and allow for updates and tweaks throughout the course of a year.

Inaccurate budgets can stagnate efforts to increase top-line revenue and exacerbate another issue for provider organizations – poor performance management. A budget's most essential purpose is to equip organizations with an idea of what they're going to spend versus what they'll likely bring in, but budgets are also used as a means of holding staff accountable. Few things undermine accountability and performance management efforts like a budget rendered inaccurate within a few months.

Sixty-two percent of survey respondents said their organization holds managers accountable to hit budget targets. This figure suggests many managers are being held accountable for reaching the wrong financial goals. It's more effective to manage performance by using prior performance as the point of comparison for assessing whether managers are efficiently and effectively using resources to deliver high quality care and improve patient satisfaction. However, few organizations take this approach. Upwards of 83 percent of survey respondents do not hold managers accountable to period-over-period performance.

For provider organizations to keep pace, leaders should reconsider their approach developing a budget and managing performance. To that end, here are six lessons from across 200 healthcare delivery systems:

### **Ensure planning covers the organization's entire scope and structure**

Issues with budget accuracy can occur when planning is not holistic across all organizational entities. Short-sighted budgetary planning can result in duplicative efforts and reinforce organizational blind spots, such as poor understanding of actual sources of revenue and expenses

and ill-formed ideas about where investments could yield the greatest improvement.

Establish a planning structure and scope, which accounts for each of your organization's service lines, departments and ambulatory entities. Incorporate the entire enterprise under a single system and process. Financial plans will then accurately reflect the scope of the entire organization with visibility across all sources of volume, revenue and expense.

### **Adopt a rolling forecast**

Traditional budgets created by hospitals and health systems become outdated in a matter of weeks, which makes resource allocation harder. These flawed financial plans can also prove difficult to accurately measure and adjust when needed.

Adopt a rolling forecast to replace or complement the traditional detailed budget. This rolling forecast should be used to inform long-term financial plans and should be revisited on a monthly and/or quarterly basis. Forecasting methodologies and metrics should be selected based on an organization's specific needs or goals. Rolling forecasts can help leaders make more informed decisions for resource allocation throughout the year.

### **Ensure planning is a collaborative process with input from key organizational leaders and experts**

In healthcare, gathering financial plan input is a manual and unstandardized process largely reliant on inconsistent modeling methodologies and source data. The lack of standardization and collaborative input undermines the accuracy of financial plans.

Establish, document and communicate a process for engaging operations, strategy and service line leaders in collaborative financial planning. The planning process should be transparent for all involved and performance expectations should be made clear to all stakeholders.

### **Define the right metrics and targets that will be used to hold operations accountable**

Forty-three percent of respondents cited a lack of system support as a challenge to driving accountability, according to the Strata-Becker's survey. This finding highlights a common issue among provider organizations: Managers are often held accountable to key performance indicators that are not truly aligned with financial objectives. Additionally, managers are often held accountable for financial statements they do not

fully understand and metrics that are out of their control.

As part of the annual planning process, leaders must identify the right metrics for holding cost center managers and their teams accountable in meeting financial targets. These metrics should be informed by historical performance data and well within the realm of each manager's control.

### **Empower managers to easily analyze root causes for variances in performance**

Fifty-three percent of survey respondents cited poor financial literacy as a challenge to driving manager accountability. Managers often misunderstand the root cause of variation in performance and must sometimes search through multiple systems to gather financial data, which makes the process of identifying the cause of variances and enacting subsequent resolution efforts cumbersome.

Implement data automation and map all source data against specific metrics. Managers will ultimately spend less time hunting down the root cause for variances in performance and will instead be able to divert their attention toward value-added initiatives.

### **Implement an operating review cadence to drive financial performance**

Many organizations lack a consistent forum where leadership can engage with various stakeholders to generate a more comprehensive understanding across the organization of performance variances, plans developed to address variances and other emergent issues.

Document, communicate and execute a standard monthly and/or quarterly review process for operations and finance leadership to review the performance of all entities and regions. Such reviews will facilitate improved communication among all stakeholders and generate a better understanding of resolution plans.

Organizations such as John Muir Health (CA), Greenville Health System (SC), Baptist Health (AR) and St. Luke's University Health System (PA) are among those driving a paradigm shift in the industry's approach to budgeting and performance management. And many more are moving in that direction. It's time for you and your team to get started. ■

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Strata Decision Technology provides an innovative cloud-based planning, analytics and performance platform that is used by healthcare providers for financial planning, decision support and continuous improvement. Founded in 1996, the Company's customer base includes 1,000 hospitals and many of the largest and most influential healthcare delivery systems in the U.S.

The Company's StrataJazz® application is a single integrated software platform that includes modules for strategic planning, capital planning, operational budgeting, management and productivity reporting, decision support and continuous improvement. The Company's headquarters are in Chicago, IL. For more information, please visit [www.stratadecision.com](http://www.stratadecision.com).