ClearPoint Strategy

Budgeting and Strategic Planning in Healthcare Organizations

The COVID-19 pandemic changed the healthcare landscape for years to come. Having a transparent strategic planning and budgeting process enables organizations to adapt to challenges beyond their control. We outline several budgeting methods and highlight three organizations who share how they made strategic decisions during such unprecedented times.

1901 N. MOORE STREET, SUITE 502
ARLINGTON, VA 22209
866-568-0590
INFO@CLEARPOINTSTRATEGY.COM

Introduction

Linking budget to strategy allows an organization to use resources efficiently to further its mission. Closer alignment between strategy and budget also ensures an organization's longevity through trying times. For healthcare providers, linking budget to strategy streamlines decision making in both routine planning and critical crisis response.

In today's world, hospitals and health systems face increasingly challenging circumstances. Healthcare leaders are not only transforming their business models, but also responding to a pandemic requiring more resources and ongoing adaptation to evolving constraints.

Better alignment between budget and strategy allows healthcare organizations to identify opportunities for growth while keeping resource constraints in mind. We'll introduce some of the key changes specific to the healthcare industry that make strategy increasingly complex before discussing how aligning strategy and budget aids in planning despite these constraints.

We'll also discuss how three healthcare organizations across the United States—Jefferson Health in Pennsylvania, Carilion Clinic in Virginia, and San Juan Regional Medical Center in New Mexico—align strategy and budget within their own organizations to inform critical decision making.

COVID-19 undeniably reshaped healthcare strategy in 2020. The final section of this paper delves into its impact on strategy and budget for all healthcare organizations for the years to come.

4 Trends Shaping Healthcare Strategy

Changing Hospital Financial Dynamics

Among the challenges health systems are navigating is the industry's constantly fluctuating financial dynamics. First, health systems are navigating an era of consolidations and mergers. Research shows consolidation is taking place at an increasing rate, and while this helps systems with cost savings and increased care coordination, it introduces new strategic challenges to the organizations involved and requires alignment across common goals. [1]

Moreover, many health systems are deciding to co-opt specialist physicians as employees or independent contractors to benefit from referrals and keep patients in their system.

Finally, elective surgery and end-of-life care are the highest revenue services in the industry. As a result, many healthcare organizations strategically position these departments for success to support the organization's longevity. This proved particularly difficult in 2020 as elective surgery was paused in many areas, severely affecting most hospitals' bottom line.

[1] More Hospital Consolidation is Expected Post-Pandemic: https://www.hfma.org/topics/news/2020/08/more-hospital-consolidation-is-expected-post-pandemic.html

One revenue enhancing approach some health systems use is to expand surgery hours in their hospitals. Studies show that many patients are willing to have surgery at 9:00 P.M. if there is a discounted price associated with it.[2] This is one of the many creative ways healthcare organizations can adapt to ensure high utilization of doctors, rooms, and equipment.

A Drive Towards Efficiency

All industries perpetually search for ways to increase efficiency, but the healthcare industry's unique duty to further public health despite limited resources makes this drive urgent and essential.

One major efficiency upgrade across the industry in recent decades is the transition to electronic medical records (EMR). One study involving emergency departments showed that emergency rooms with fully functional EMR had an average stay 22.4% lower than emergency rooms without them, and a 13.1% lower diagnostic time.[3] A separate study showed EMR can reduce nursing documentation time by up to 30%.[4]

Efficiency is also important to allow for adaptation to new regulations and requirements. Government standards continue to evolve, forcing health systems to rearrange processes and systems to meet the new requirements. This continuous upheaval can also negatively impact efficiency if the changes are not managed properly.

The Shifting Payer Landscape

In addition to financial and operational shake-ups, health systems must closely monitor and react to the shifting payer landscape. Many insurance and Medicare payers now pay for outcomes rather than specific activities, which often results in hospitals feeling squeezed by both groups.

To avoid this and instead increase revenue, health systems must improve price transparency and patient billing processes. For example, giving price estimates before the point-of-service, offering convenient payment options, and automating medical billing helps providers collect quickly from patients.

Technologies that link providers to payers without multiple phone calls and website searches can enable real-time cost estimates, allowing staff to engage in more meaningful patient collection discussions before medical bills turn into provider bad debt.

And finally, linking back to the importance of efficiency, health systems must automate wisely. The Council for Affordable Quality Healthcare (CAQH) found that providers could save $8.5 billion annually

---

[2] To Weather Long-Term Changes to Healthcare due to COVID-19, CFOs Need an Action Plan: https://www.healthcarefinancenews.com/news/weather-long-term-changes-healthcare-due-covid-19-cfos-need-action-plan

[3] Electronic Medical Records and the Efficiency of Hospital Emergency Departments: https://www.researchgate.net/publication/44679901_Electronic_Medical_Records_and_the_Efficiency_of_Hospital_Emergency_Departments

[4] Electronic Medical Records and Cost Efficiency in Hospital Medical-Surgical Units: https://journals.sagepub.com/doi/pdf/10.5034/inquiryjrnl_47.02.110

by automating key claims management workflows, such as prior authorizations, claim submissions, and claim payments.[5]

Service Delivery Transformation

The world is changing, and so is the way people access healthcare. In-patient care is more costly now than ever before for health systems. As nurse practitioners can treat most minor illnesses, lower cost urgent care and express clinics continue to expand rapidly via these providers.

Telehealth and virtual care options are also becoming more popular. Analysts at Forrester Research predict there will be 1 billion logged virtual healthcare interactions just in 2020, up 43% from 2019.[6] As people became more comfortable with the idea of telehealth during the COVID-19 pandemic, it is normal for patients to consider a virtual appointment. Drive-through diagnostic testing and vaccination programs might stick around as well.

Finally, the cost of direct treatment for chronic diseases in the U.S. in 2016 was equal to $1.1 trillion dollars, and costs have only continued to rise. As a result, preventive medicine is moving to the forefront of the industry, helping providers save money in the long-run and keep communities healthier. Investing in preventive care can save organizations considerable money in the long run.[7]

---

[5] 3 Key Strategies to Increase Healthcare Revenue Cycle Efficiency: https://www.mdclarity.com/strategies-to-increase-revenue-cycle-efficiency/

[6] Six Telemedicine Predictions for 2020: https://www.healthitoutcomes.com/doc/telemedicine-predictions-for-0001

[7] Chronic Disease Costs in the United States: https://milkeninstitute.org/reports/costs-chronic-disease-us#:~:text=In%202016%2C%20the%20total%20costs,diabetes%2C%20Alzheimer's%2C%20and%20osteoarthritis.

Budgeting Approaches

As your organization reacts and responds to these strategy challenges, it is crucial to have a budgeting method in place. Listed below are a few examples of popular approaches, sometimes combined, that help with budgeting and forecasting for the future.

Rolling forecast budget	Re-forecasts the next twelve months at the end of each quarter, enabling continuous planning.
Baseline budgeting	The process of starting with the previous year's budget as the basis for the new budget, with adjustments made to reflect the previous year's spending, inflation, and future projections.
Initiative/priority budgeting	The process of aligning spending with strategic priorities.
Innovative budgeting	Additional budgeting tactics that enhance and improve the overall budget process.

Rolling Forecast

A rolling forecast budgeting approach enables organizations to continuously plan over a set time horizon. For example, if your organization produces a plan for the calendar year 2021, a rolling forecast re-forecasts the next twelve months at the end of each quarter.

This approach is especially helpful during unpredictable times or crises as it allows for adaptations as circumstances change. Be aware that it requires a lot of meeting and analysis to update budget and change course, but ultimately, it is good practice to meet regularly to evaluate recent information and adjust accordingly.

Baseline Budgeting

This approach uses current spending levels as the "baseline" for establishing future funding requirements and assumes future budgets will equal the current budget times the inflation rate times the population growth rate.

Future budget = Current budget x Inflation rate x Population growth rate

This approach is best used during times of relative stability, with no expected rises in costs or expenses or unexpected crises affecting the industry at large.

Initiative/Priority Based Budgeting

This approach prioritizes the impact different strategic initiatives may have on your budget and allocates budget to specific initiatives or priorities. Different initiatives may increase or decrease revenue and reimbursements, raise or lower volumes, and drive the cost of delivering care up or down. Healthcare organizations should identify the key drivers associated with each proposed initiative and then model the financial and operational impacts of the initiative over time.

Initiative-based budgeting is most effective for translating high-level strategy down into actionable operational plans. Not only does this approach benefit your financial state, it also helps your organization strategically succeed in a rapidly changing environment.

Innovative Approaches

You can adapt and fine-tune these approaches to support your main budgeting system.

What-if Modeling

This approach relies heavily on data and statistics to predict budget needs in the event of certain scenarios. It is useful for studying and experimenting with complex scenarios without the cost of implementation. You can use data to make assumptions about different variables like global volumes, reimbursement rates, and labor rates and then use what-if modeling to see what impact a program might have on your budget.

Service Line Analytics

This approach consists of analyzing performance drivers for a specific healthcare service line to benchmark areas of high and low potential within a market. It uses patient-centric data and is most helpful when your organization is seeking to define a system-wide strategy to identify investment opportunities and improve resource allocation.

StratEx Budget

A StratEx (or strategic expenditure) budget is a separate part of the bigger budget that is cross-departmental in nature. When using a StratEx budget, leaders decide what strategic projects are necessary to achieve the priorities or outcomes of the organization's strategic plan. Appropriate funding is then allocated to these initiatives and projects.

With a StratEx line item in your budget, you can start allocating that budget to different areas of your strategy, sometimes called themes. Imagine having a $5M strategy budget allocated 40% to state-of-the-art facilities, 30% to a well-trained workforce, and 30% to cutting-edge research. In this scenario, you would have $2M allocated to creating or upkeeping your state-of-the-art facilities. You could then look at all your initiatives or projects that align with improving facilities, prioritize them and spend your $2M wisely.

With the StratEx budget, it means that you can have a process to make sure that you are focused on your priorities, while still making sure you spend an additional $1.5M each on the training and research aspects of your strategy.

By the way, this StratEx budget is usually cross departmental, and still means that you have normal departments like Surgery and Rehabilitation with their own budgets. The StratEx would be above the normal budget. StratEx was first written about in Norton and Kaplan's book, *The Execution Premium.*

Linking Budget and Strategy

The Balanced Scorecard Framework

A strategy framework like the Balanced Scorecard (BSC) will help your organization build and execute a strategy to achieve its goals and address the challenges described above.

The BSC framework is based on the balance between leading and lagging indicators, which can respectively be thought of as the *drivers* and *outcomes* of your company goals. When used in the Balanced Scorecard framework, these key indicators tell you whether you're accomplishing your goals and whether you're on track to accomplish future goals. A Balanced Scorecard includes goals across four key categories, linked measures to help gauge progress toward those goals, and linked initiatives that help further each goal.

By adding initiatives to your Balanced Scorecard aimed at responding to the challenges and trends above, you can ensure you're on track to achieve your long-term goals regardless of external constraints.

Once you understand how these strategic elements fit together and inform each other, you can build a strategy that enables your health system to meet any challenges. You can then choose a budgeting approach to execute on this strategy and use some of the innovative budgeting methods detailed above to evaluate progress.

Communicating the Strategy and Budget

Creating a strategy and choosing a budget approach to execute it is just half the battle. It is equally crucial to explain strategy and budgeting process clearly to departments and teams and implement it at every level of the organization. You must communicate the plan to all departments and explain that all funding requests from departments must directly link to a strategic priority or goal. This ensures future funding requests align to your strategy.

Managing your Budget within a Regular Strategy Management Cadence

After creating a strategic plan with an accompanying budget and communicating it across the organization, you need to implement and carry out strategy reporting, which is a key factor in the success of your decision-making process.

Regular reporting requires leaders to adapt and change the strategy and budget during leadership meetings, after data and reports are reviewed. Be especially prepared to adjust if you are using a rolling forecast budgeting model.

It is also essential to provide an appropriate reporting template for decision-making, one that will present clear and timely information, so your executive team spends more time making good decisions and less time trying to decipher the reports. Finally, design and implement a reporting schedule with regular meeting times so that nothing slips through the cracks.

The cases below provide further insight into how modern healthcare organizations are innovating and adapting to keep strategy and budget aligned and work toward their goals.

Case Study #1
Integrated Strategic and Financial Planning at Jefferson Health

Jefferson Health is a multi-state non-profit health system based in Philadelphia, Pennsylvania. Jefferson utilizes an integrated approach to strategic and financial planning that allows the organization to track progress towards its goals and adapt as needed as circumstances change.

Jefferson Health first adopted the Integrated Strategic & Financial Planning (ISFP) approach to help the growing health system adapt to its many recent mergers and acquisitions effectively. With new hospitals, clinics, and providers joining the system, the organization needed a better way to ensure that resources were appropriately allocated across the system.

As part of this integrated approach, Jefferson's strategy and finance departments are both overseen by one leader who is both CFO and CAO, ensuring innate integration between the two functions. Jefferson's ISFP approach incorporates many aspects of the budgeting approaches and innovative methods outlined above.

ISFP allows Jefferson Health to nimbly react to disruptions in the healthcare industry, changes in the local market in Philadelphia, and the volume of patients across the system at a given time. As a non-profit healthcare organization, this approach also ensures that Jefferson can identify opportunities to grow while also considering necessary budget constraints.

The ISFP process involves a series of seven steps conducted each year. In the first two steps, the Jefferson team validates and makes any desired changes to its mission, vision, and values, then translates that vision to strategic priorities and metrics.

Jefferson next uses the ClearPoint software to build scorecards with key metrics tracked for each of its many departments on the academic side and individual hospitals and service lines on the clinical side. Those key metrics are tracked monthly and reported out to the Board via ClearPoint. On the clinical side, Jefferson uses a Balanced Scorecard across the enterprise to keep all individual hospitals and service lines aligned with the organization's overall clinical goals, metrics, and initiatives.

Step 3 in the yearly ISFP review is to refresh the strategic financial plan based on forecasts for all the different operating units. These forecasts also consider known capital expenditures that will take place during the coming five years as Jefferson Health continues to grow as a system across Philadelphia and beyond.

From there, working closely with the finance team so that the financial impact of all initiatives being developed is integrated as part of overall planning, three-year plans and initiatives are developed for each entity within the organization. These three-year plans are refreshed annually.

Next up, step 5 is to determine the enterprise-wide initiatives Jefferson Health will pursue. This determination of which initiatives to fund is based on financial thresholds and qualitative metrics that indicate the effectiveness and impact of various pursuits.

In step 6, the team develops its annual operating plan. Throughout the earlier steps in the ISFP process, teams received feedback on proposed initiatives and focus areas, so they now have the information they need to develop their one-year operating plans and decide on their priorities for the next fiscal year. The strategy is also intended to look forward to the next fiscal year and inform the next year's budget.

The final step of the ISFP process is execution and performance tracking. Jefferson uses ClearPoint to monitor and track progress on its annual operating plan initiatives and three-year strategic plan. ClearPoint makes tracking the initiatives for each entity over the course of this one-year plan simple, allowing leaders across the organization to see what each team did and how their performance compared to targets. This execution and performance tracking is critical to ensuring that the strategy developed through the ISFP process becomes a reality.

Case Study #2

Performance Driven Strategy and Budget at Carilion Clinic

Carilion Clinic is a Roanoke, Virginia-based non-profit integrated healthcare organization that provides care for nearly one million Virginians and West Virginians. Carilion relies on their reporting process to inform both their strategy and budget. They track system-wide initiatives, physician evaluations, and critical measures to report on each quarter.

Each strategic vision has a champion from the senior management team who writes a summary on the status of their elements for the rest of the team. The senior management team reviews each report and relies on this information to make decisions. Specifically, they evaluate how the performance of certain key metrics influences their overall strategy and budget.

Often, performance on certain measures has a direct impact on the budget. For example, the scores from their “Patient Experience” measure impact payment from certain insurance payers who choose to reimburse high performing healthcare systems at higher rates. If Carilion does not meet certain patient experience standards, they are leaving money on the table. Creating an excellent patient experience is thus a key part of their strategy, as it directly influences their budget. However, there are challenges to pursuing this strategy.

The healthcare industry is becoming a shopper’s network—the patient has more control over their care than ever before. This presents several strategic challenges that Carilion must be prepared to meet, including the need to beat out competitors. The rise and prevalence of telemedicine also makes it easy to seek out alternative care that is not necessarily local. In addition to becoming virtual, this shopper’s network is nationwide. Patients will travel long distances to see high-ranking doctors or access high-quality care. These changes in the shopper network make it critical for local providers to create an excellent patient experience and secure high ratings so they can get reimbursed while continuing to attract and retain patients.

Carilion Clinic’s strategy is intricately linked to their budget. As the senior management team makes decisions about strategic challenges and ongoing major projects, they very closely consult the budgeting process. On one hand, they need to know if the budget will allow them to start or continue certain projects. On the other hand, they might also approve an expense with the expectation that project will positively impact the budget by growing the system’s volume and/or revenue.

In terms of budget structure, the organization has shifted from a traditional budgeting process to a forecasting process. Every quarter, they re-forecast the strategy and budget based on informed predictions for where they will be three, six, and 12 months from now. Though they started using a forecasting approach before COVID-19, Carilion considers it great timing, as they were able to accurately forecast revenue loss this spring and adjust their plans accordingly.

Case Study #3

Baseline Budgeting at San Juan Regional Medical Center

San Juan Regional Medical Center (SJRMC) is a non-profit, community owned hospital providing healthcare to the Four Corners region of New Mexico, Arizona, Utah and Colorado. At SJRMC, reporting is carried out at the committee level. Each committee then reports up to senior leadership, which is ultimately responsible for making decisions. SJRMC also employs a baseline budgeting approach, which means the budget is based off the previous year's budget and adjusted for any changes in the coming year.

In response to COVID-19, SJRMC had to use furloughs to cut costs, while also facing a loss of revenue due to the stopping of elective surgeries. In the short-term, SJRMC's main challenges involve PPE and supply shortages, as well as ICU bed capacity.

Budget Balancing During and After Crises such as COVID-19

The American Heart Association estimates American hospitals lost $202.6 billion from March 1, 2020 to June 30, 2020, exacerbating financial pressures hospitals were feeling even before the pandemic began.

COVID-19 exposed gaps in our healthcare system in a variety of ways – from who can access care, to physical space issues, to the paradox of hospitals losing money in a time when they are highly needed and in demand. Many larger hospitals were able to be flexible with their space and expand their ability to service patients with COVID-19, or even create dedicated COVID-19 free spaces, while smaller hospitals and clinics were unable to do this.

Given that treating COVID-19 patients comes at a net financial loss for hospitals, the influx of COVID-19 patients is dominating hospitals' available space and some government legislations mandated at various stages that all voluntary surgery be paused, healthcare systems have had a lot to navigate and overcome.

The pandemic introduced unprecedented demands on hospital systems, but there is no clear payer behind these demands. At the same time hospitals are providing these unprecedented but costly services, they are unable to provide the most revenue-generating services (such as elective surgery). They are losing more money than ever before, which makes the budgeting process very difficult.

Thus, in the wake of COVID-19, hospitals and health systems must rethink not just the clinical model, but the entire financial model around it. Many experts agree traditional budgeting models are obsolete as there is so much unknown in the health industry today (volume, revenue, expenses, cash flow, etc.). Right now, health systems need a structured, carefully orchestrated rolling forecast process to frequently and consistently draw on the most recent information to make the next decision.

In fact, healthcare providers across the country are seeing that consumers now expect virtual care as the preferred method of receiving treatment given the ongoing prevalence of the COVID-19 virus. Healthcare systems needed to quickly adapt to better support—or even unveil for the first time—telehealth services to meet this new demand.

As a result of the pandemic, its economic effects across the industry, and the dual care required to treat both COVID-19 and other patients, the marginal cost of care is now much higher. In addition, patients are facing increasing economic constraints themselves, leading to more avoidance of care, inability to pay, worsened health outcomes, and of course an increasingly complicated financial outlook for healthcare providers.

Jefferson Health and COVID-19

Jefferson Health has treated more COVID-19 patients than any other provider in the Philadelphia area as of November 2020; pandemic response has required a massive lift across the organization. The ISFP process, which Jefferson had in place prior to COVID-19, is critical in allowing the system to respond effectively to the crisis' challenges.

Like many other healthcare providers during the crisis, Jefferson Health needed to figure out how to create dual systems of care—to properly and effectively treat both COVID-19 patients and all other patients safely. Virtual care, or telehealth, was quickly ramped up at Jefferson and hospitals around the country to help meet the needs of the latter group.

As it looks to the future, Jefferson Health, like many others, hopes to recapture patient demand that waned during the pandemic, fundamentally reduce expenses, continue to adapt to increased demand for telehealth, and restructure and rationalize sites of care to continue to serve the Philadelphia community. Jefferson also shifted strategy to look for initiatives with a quicker return on investment to further bolster financials.

These imperatives for the near future for Jefferson Health specifically speak to the general imperatives across the industry to improve profit margins and continually adapt to suit evolving patient needs in these unprecedented circumstances.

Carilion Clinic and COVID-19

COVID-19 impacted both strategy and budget at Carilion Clinic, and its effects will be felt for years to come. In the short-term, Carilion's biggest challenge is getting patients back in the door to return to pre-COVID-19 volumes. In many cases, telemedicine can make it easier for patients to see providers during the pandemic. Enabling telemedicine even led to some specialty areas exceeding volume expectations, due to the fact it is difficult for patients to travel out of network during the pandemic. Every quarter, Carilion's senior management team strategizes ways to bring volume back to pre-COVID-19 levels. Carilion notes that it is important to educate the public that it is still safe and often necessary to come into clinics and see a provider.

In addition to volume, revenue and finances were a concern for Carilion Clinic during the pandemic. In early 2020, the pandemic required Carilion to change targets and make some cuts across the board. As a non-profit healthcare system, Carilion must manage and improve their bottom line first and foremost by managing expenses. This is often a more effective budgeting tactic than attempting to raise more revenue, especially for non-profits who cannot turn any patients away. In times of economic instability, such as during the pandemic, Carilion employs the tactic of looking at targets based off historical run rates and determining how to keep their costs the same as last year, or even improve on them.

In the long-term, Carilion Clinic is concerned about the many underlying conditions that will go undiagnosed or unmanaged during the pandemic. It will require many resources to heal and care for those patients, and healthcare systems need to make sure both their strategy and budget are prepared to handle this over the next two to five years.

Conclusion

All things considered, health systems couldn't afford to just bunker down during the COVID-19 pandemic. There will be effects for years to come that need to be planned out and dealt with accordingly. There is no one-size-fits-all approach to ensure healthcare organizations success into the future, but having a sound strategy and budget in place, and making sure they are aligned, is a great starting place.

As we see with Jefferson Health, Carilion Clinic, and San Juan Regional Medical Center, transparency in the strategic planning process was crucial as they reacted and adapted to the changing healthcare environment of COVID-19. Make sure your organization is ready to face the industry's strategy challenges head on, equipped with a budget and the technology to manage it all.

Contributors

Jennifer DeChellis, San Juan Regional Medical Center. Jennifer enjoys working as a Data Scientist at SJRMC.

Laura Dillon, ClearPoint Strategy. Laura is a Consultant at ClearPoint Strategy and works with customers to improve management of their strategy and budget processes.

Patrick Doolittle, Jefferson Health. Patrick serves as a Senior Strategy Consultant at Thomas Jefferson University Hospitals, developing and executing on strategic initiatives system wide.

Darren Eversole, Carilion Clinic. Darren is a Director of Finance at Carilion, managing the organization's scorecard process and reporting.

Ted Jackson, ClearPoint Strategy. Ted is a Managing Partner at ClearPoint Strategy and has worked for more than 20 years helping organizations make reporting more efficient and effective so they can focus on making better decisions.

Abby Serino, ClearPoint Strategy. Abby is a Senior Account Executive at ClearPoint Strategy. She works with organizations of all sizes to help them understand how they can leverage technology to improve their strategic planning and budgeting processes.