

# Strategic Financial Planning



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## Building an Agile Organization Through Strategic Planning

By John Harris

*Success in today's environment often requires rapid action at unpredictable times. The right strategic planning process can drive your senior team to think strategically, prepare for uncertainty, and respond with agility.*

The litany of challenges for hospitals and health systems is pretty familiar: declining service volumes, tightening reimbursement, and tight budgets create significant financial challenges. On top of that, physician alignment, clinical integration, new payment models, and mergers must also be considered. When you add the need for swift leadership responses to rapid marketplace changes, you have a high-stakes situation that is too dynamic to confidently predict future developments.

Is strategic planning even useful in this environment?

It's not only useful, it's essential.

But hiring strategy consultants for a traditional planning process may not be the optimum way to serve your organization. An alternative planning approach uses outside consultants to provide perspective and guidance, but relies on internal knowledge to drive the majority of the planning. In this context, strategic planning can help to build needed analytics capacity and strategic thinking among C-suite leaders, medical staff, and the board—so the organization has the agility to address whatever the future brings.

### Informed Internal Responses

Today, many health systems have significantly greater business intelligence and analytic capabilities in-house than they had in past years, and can do much of the analysis required in strategic planning themselves. The traditional front-heavy consulting engagement is no longer required.

However, health systems do need help shifting the focus of senior staff from operational challenges to the creation of strategic and contingent responses, which they will then be committed to implementing. Furthermore, outside perspective remains crucial. Those inside the organization often need to hear about developments nationally and in other markets from a neutral outside party.

The health system discussed below, which is actually a composite of two health systems, took an alternative

approach to developing strategy by relying heavily on internal resources. Consulting support was focused on guiding the planning process, providing outside perspective, and ensuring that the tough issues were not dodged.

**Five Focus Areas**

Senior management at the health system wanted a strategic planning process that would strengthen the organization’s agility to deal with the many possible directions the regional market could take in the coming years. They also wanted a process that would engage the board, the medical staff, and the management team during the planning process.

To begin the process, the senior team identified five areas that needed detailed strategic assessments prepared:

- > Health reform and its impact
- > Physician alignment

- > Service line development/market share growth
- > Infrastructure (IT and facility)
- > Finance/payer strategy

The senior team and consultant then identified specific questions that they believed each work group should address.

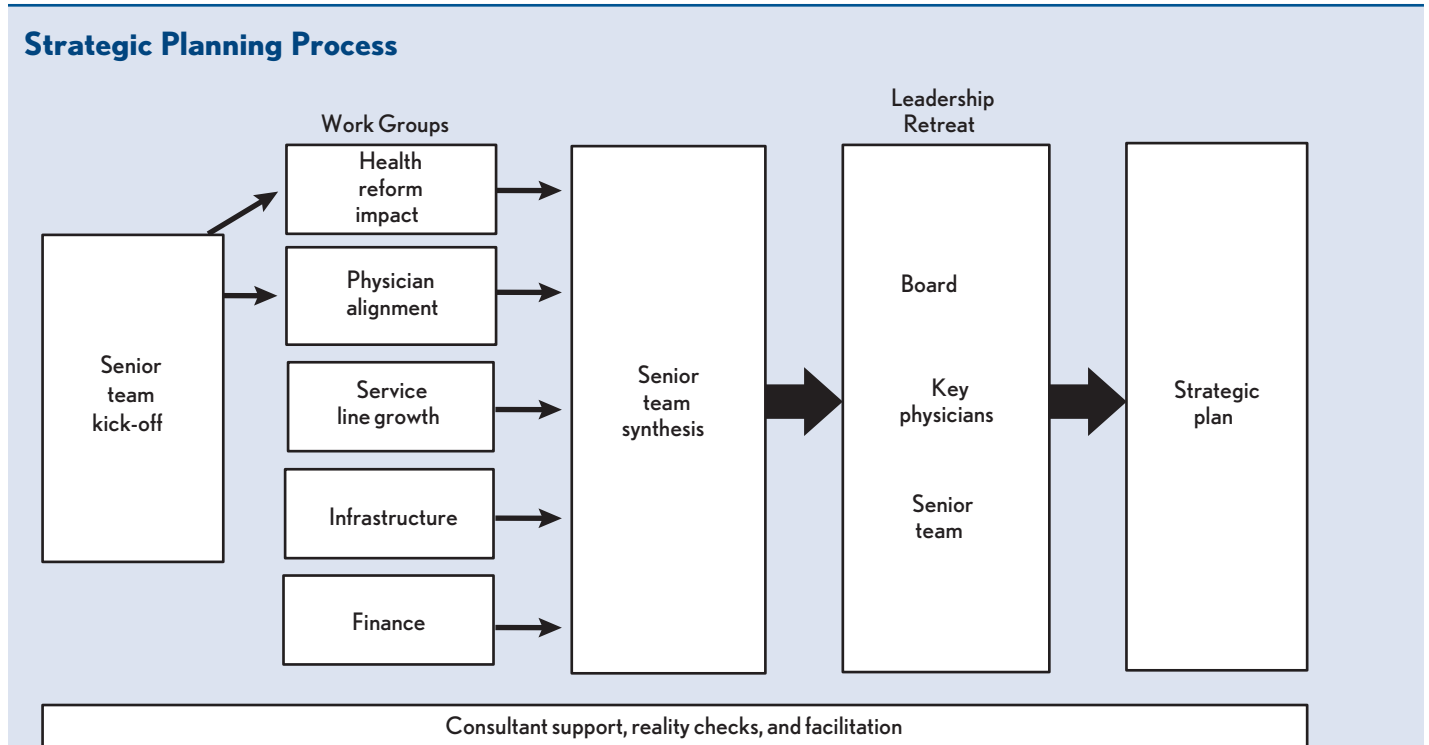
**Work Group Assessments**

Internal work groups were created for each topic. The health system’s director of professional development coordinated the activities of all the work groups, demonstrating the extent to which the health system viewed strategic planning as an opportunity to build staff capabilities and capacity.

The work groups reached deeper into the organization than is often the case in strategic planning to tap the experience of a

broader group of participants. For example, the finance/payer strategy group included controllers, accountants, and specialists in financial modeling and reimbursement. These people knew the health system’s current situation in detail; the challenge for them was to engage in the creative financial modeling needed to think five years out.

The approach used with the finance work group is illustrative of the approach for all of the work groups. First the work group met with the consultant to understand the planning process, define the group’s role, talk through potential challenges, and identify issues that needed to be coordinated with other work groups. Issues like infrastructure needs, physician alignment strategies and their costs, and market share development strategies were identified as areas that connected other work group assessments to the finance work group.



Source: Veralon. Used with Permission.

This strategic planning approach can help senior leaders, the board, and key physicians respond strategically to current and future market developments.

The consultant provided a sample strategic assessment so the work group would know what they were going to create. In the case of the finance work group, it was a 20-slide PowerPoint identifying key challenges and summarizing results from a five-year prospective financial model. This financial model needed to reflect changes in volume and payment at a gross level to provide a basis for sensitivity analyses. The projections also needed to include balance sheets so the impact on key strategic financial metrics could be addressed.

Over a series of meetings with the consultant, the work group refined the financial model. Inputs from other work groups regarding potential capital needs and volume changes were integrated into the sensitivity analyses. In addition, the financial model was used to assess the impact of different scenarios.

In similar fashion, the other four work groups created 20-slide strategic assessments. Together the consultants and work group members determined what information and findings were material from a five-year perspective, and what could be safely disregarded. Each presentation began with five or six key strategic considerations and then provided data or information describing and addressing each consideration. The work groups also reviewed their drafts together to ensure they appropriately addressed issues that related to more than one work group, and to make final refinements before the retreat.

While the work groups did most of the analysis, the consultants still retained some analytical responsibility. They made sure key issues were addressed

fully, and they challenged assumptions. The consultants also took responsibility for the assessment of health reform and its impact in many different markets.

### Market Scenarios

Senior leaders and the consultant developed four different scenarios that helped clarify the key issue of how payer contracting strategies and related competitor actions might affect the market.

The first two scenarios focused on a shift to accountable care, and the last two focused on continued traditional contracting:

- > Integrated delivery systems with significant aligned physician networks compete to gain payer rewards for effectively managing population health costs and quality.
- > Independent physician groups use their central role in care delivery to garner rewards for improving quality and reducing population health costs.
- > Large health systems use their negotiating clout to continue favorable fee-for-service contracting.
- > Low-cost providers enter payer contracts that steer patients to them and away from higher cost providers.

### Board and Medical Staff Engagement

A special retreat brought senior leaders, board members, and key members of the medical staff together to begin identifying how to respond to market changes. During the morning of the retreat, all the work groups gave summary presentations of their strategic assessments. This was followed by an overview of the four scenarios that senior management had identified.

In the afternoon, the board was divided into small groups to discuss the implications of

each of the four scenarios for the health system:

- > What was good and bad about each scenario?
- > How would the health system have to change to address the scenario?
- > What would the health system have to do now to be prepared for long-term success under each scenario?

The consultants worked with the small retreat groups to help them develop a full understanding of their options and the pros and cons of each. Participants identified key steps required for success under each scenario, concluding with a discussion of steps that would be pursued under all scenarios.

After the retreat, senior leaders summarized key priorities and action items to be pursued by the health system immediately, identified indicators to monitor, and agreed on trigger points for shifting future strategy.

### Agile Decision Makers

As a result of this process, the senior team took responsibility for the strategic issues, and the board developed greater trust in the ability of the senior team to act strategically. Simultaneously, the board was given the information it needed to understand an increasingly complex and competitive healthcare environment, and to make wise decisions. This approach to strategic planning helped to create agility in the organization by giving leaders the tools and information they needed to identify the right path forward.

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