

# HFMA REGION 7 CONFERENCE

---

## H2O Talks

### **Enhance Performance, Eliminate Budget**

Gordon T Edwards

July 18, 2016

# The Problem



Not About Replacing Budgets with  
Forecasts

Alternative Financial Planning and  
Management Approach

# Two Visions for Improving Finance

Vision A	Vision B
Increase targets, measures, controls	Reduce targets, measures, controls
Improve financial and accounting expertise	Improve business analysis skills
Tighten top-down planning and control	Enable local managers to respond to events
Manage costs through tighter budgets	Eliminate costs that add no value
Measure to tighten accountability	Measure to learn and improve
Manage risk through better procedures	Manage risk by raising competences

# Beyond Budgeting Framework



1. Targets relative to competition
  2. Rolling forecasts
  3. Rewards on relative performance
  4. Up to date/transparent information
  5. Give managers freedom to act
  6. Adaptive to changing environment
- A new management model, not just financial control structure

# A Foundational Change

- Reduce targets, measures, controls
  - Single measure rather than detailed line item budgets
  - Consistency of measure between cost per and productivity per
- Enable local managers to respond to events
  - Manage within targeted costs per UOS
- Eliminate costs that add little value
  - Resources spent on improving performance versus negotiating budget
- Measure to learn and improve
  - Continuous feedback loop on performance
  - Action plans to improve current performance
- Focus is on responding to customer demand vs. anticipating demand

# Ideal Environment

- Rapidly changing business climate
- Organizational self-confidence
- Cultural readiness to manage differently
- Desire to encourage front-line decision making
- Lean management may facilitate transition

# Budget Wasteful





## Desire: A Better Financial Management System

- Eliminated a “waste” of resources
- Emphasized performance improvement
- Clear accountability
- Better communication across functional teams
- Empowered front-line managers to run the business
  - Right information, right time for daily management
- Facilitated organizational nimbleness to changing business climate

# Board Involvement

Board approved four targets

- Operating margin
- Capital
- Days cash on hand
- Charge master increase
- Targets primarily driven based on capital plan and rating agency expectations
- Focus discussions become more future orientated
- Hold management accountable for outcomes

# Forecast Process

- Best estimate of what will happen in the future, given what we know today
- Forecast 18 months into the future (6 quarters)
  - High-level, not at a department level
  - Quarterly process, two weeks post quarter close
  - Evaluate accuracy
- Leverage past quarterly results as baseline
  - Adjusted for known projects
  - Utilized a few KPIs
  - No plugs
- Results discussed
  - Senior leadership team (on track, modify)
  - Finance Committee (with senior leadership team conclusion)
  - All management/Medical Staff

# Management Reports

## Metric Driven

- Cost per unit of service
- Productivity (worked hours per unit of service)
- Revenue (unit driven) per FTEs (medical practices)

## Monthly Reporting

- Actual compared to run rate (past three month average)

## Future Development

- Daily productivity reporting
- Improved financial reporting

## Accounting Changes

- Eliminated accruals at departmental level

# Retained Aspects of Budgets

- Capital
  - Amount available to spend driven by forecasts
  - Managed under a “budget” approach
- Consider excluding specific subsidiary operations
  - Foundations, other decentralized operations
  - Stable business models
  - Incorporated into new approach once stable with largest operation

# Semi-Annual Business Plan Reviews

- Major business lines
- Finance, quality, service, & people key metrics
- Presented to senior leadership team
- Key accomplishments, plans for improvement, & barriers to achieving targets

# Outcomes

## Positive

- Management more focused on results versus budgets
- Discussion became more future orientated
- Operating results significantly improved

## Negative

- Managers wanted to know what they could “spend”
- Reporting wasn’t adequate to support change
- Change in leadership impacts sustained practice

Continued Challenges with Accountability Regardless of  
System

# Comparisons

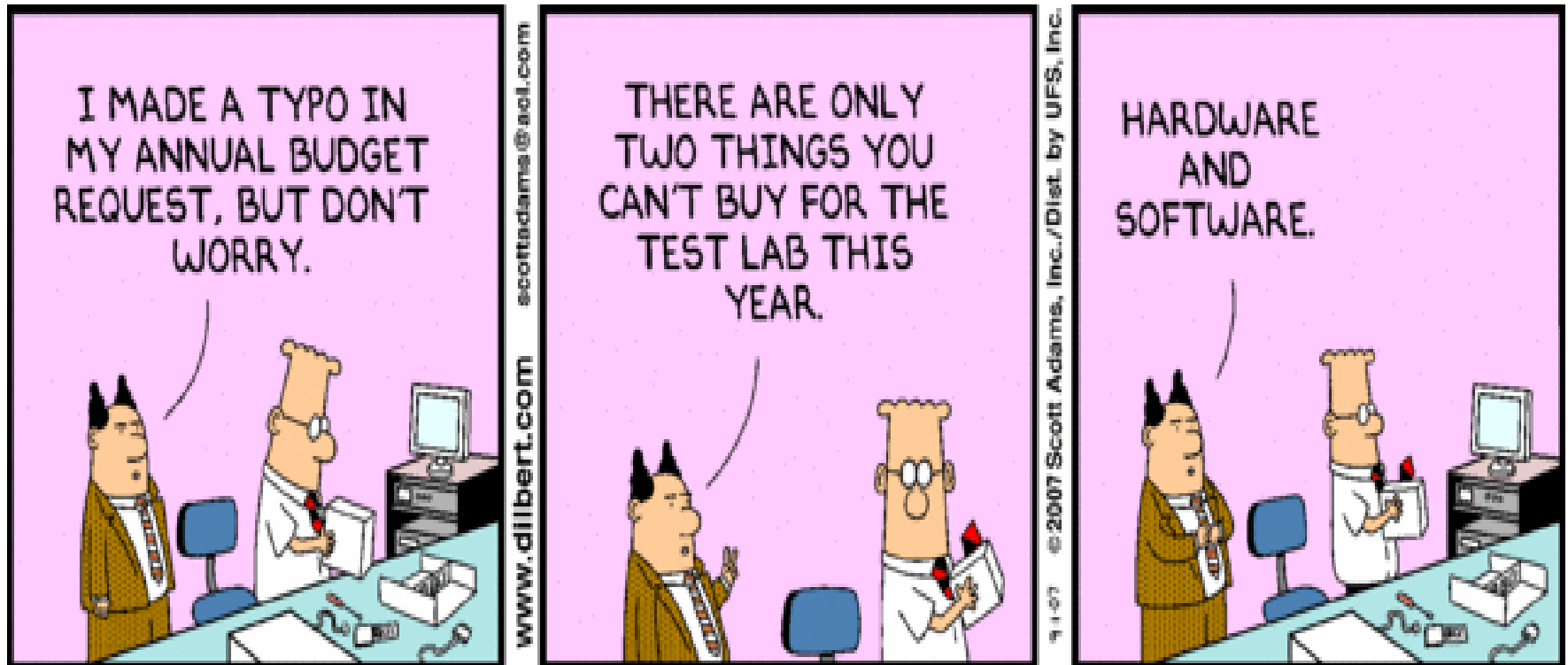
<b>Budget</b>	<b>New Planning Model</b>
Board approved detailed budgets	Board approved organizational targets
Annual	Quarterly
Cumbersome, wasteful process	Nimble, focused process
Slow to respond	Quarterly discussion & course correction
Very detailed	Focus on the significant few
Silo accountability	System view / accountability
Significant resources to “balance”	All hours redeployed to daily management and quarterly forecasting
Variance analysis to “budget”	Variance analysis to continuous improvement from previous period
Static Dollar Focus	Metric Driven



# What is the risk?

- Lack of plan to achieve results
  - Revisited quarterly through forecast
  - Clear improvement plans based on current performance
- Lack of accountability
  - Every manager will have a clear target on performance
  - Targets linked to productivity
- Lack of understanding
  - Consistent with Lean Management
  - Finance data is similar to quality data
- You can always create a budget

# Avoiding the Inflexibility of Budgets



Take the Leap!

# References

- Cunningham, Jean & Fiume, Orest (2003). *Real Numbers Management in a Lean Organization*. Durham, NC: Managing Times Press.
- Hope, Jeremy & Fraser, Robin (2000). Beyond budgeting. *Strategic Management*, 82(4), 30-35.
- Hope, Jeremy & Fraser, Robin (2003). *Beyond budgeting how managers can break free from the annual performance trap*. Boston, MA: Harvard Business School Press.
- Rickards, Robert C. (2008). An endless debate: the sense and nonsense of budgeting. *International Journal of Productivity and Performance Management*, 57(7), 569-592.
- Rickards, Robert C. (2006). Beyond budgeting: boon or boondoggle?. *Investment Management and Financial Innovations*, 3(2), 62-76