Case Study

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Elevating the Role of Finance at Mary Lanning Healthcare

One central Nebraska hospital sought to transform its budgeting and performance monitoring capabilities through strategic partnerships between finance and operations. The result: enhanced productivity, decreased labor costs, and a stronger bottom line.

With the move toward more data-driven decision making in the healthcare industry, the role of the hospital finance department has been elevated from a back-office operational function to a more strategic, advisory one. This role compels today’s finance teams to find ways to more efficiently and effectively deliver the data that drive informed business decisions and support sound strategic and tactical planning and execution.

The finance team at Mary Lanning Healthcare in Nebraska understood the importance of this new charge as the organization began to embrace more data-driven decision making. The team recognized that it needed to become more agile in pinpointing and responding to the short-term and long-term needs of the 183-bed acute care facility, which offers 29 medical specialties. This effort required strengthening the partnership between finance professionals and operations managers. It also required a shift in focus from tedious data aggregation to more value-added analysis that could provide greater visibility into changes in variables and assumptions.

These considerations prompted Mary Lanning’s finance team to collaborate with operations leaders in implementing new approaches to financial modeling, capital planning, and performance reporting, resulting in enhanced efficiency, reduced costs, and improved organizational agility.

Taking the First Steps Toward Transformation

Transforming the finance function at Mary Lanning meant establishing effective planning frameworks that not only helped promote efficient processes, but also were realistic and fostered accountability. It meant developing and implementing key process improvements to support efficient, multiyear financial forecasting; linking strategic assumptions to
operational budgets; streamlining capital planning; managing to the organization’s strategic plan using performance reporting and impact analysis; and improving time savings and accuracy with the help of new processes and tools as well as timely and comprehensive reporting.

The process of defining a multiyear financial plan for hospitals and health systems is no longer limited to the finance department. It has become an increasingly integrated process, involving both financial and operational leaders and requiring insight and visibility not only into financial trends, but also into the short-term and long-term impact of existing or proposed initiatives on an organization’s financial health.

To facilitate more efficient financial planning, Mary Lanning’s finance team has adopted more statistically driven methodologies to streamline financial modeling and make projections across multiple time horizons (one year, two years, and three to five years). The forecasting process does not replace Mary Lanning’s annual budget. Rather, it sits side-by-side with the annual budget, enabling hospital leaders to monitor—on a quarterly or even monthly basis—how the hospital is performing against budget and to make changes accordingly.

For example, Mary Lanning has adopted tools that enable finance leaders to effectively model the “What if?” impact of various changes in volume and expense (e.g., labor cost per adjusted patient day) independently and to evaluate the impact of such changes on the organization’s bottom line as well as across key performance indicators. The organization also has adopted a driver-based budgeting model, in which changes in global drivers such as admissions and visits can be flexed around dependent variables such as efficiency, workload, and patient days by department. And each month, the hospital measures changes in payment assumptions, such as the expected-versus-actual payer mix, and makes adjustments in operations based on volume and payment forecasts, both short-term and long-term.

Four years ago, Mary Lanning’s finance team began to work collaboratively with operations managers throughout the hospital to ensure that each department has an appropriate “workload driver”—for example, in the medical–surgical unit, productive hours per patient day—that is tied to a global driver, such as volume or admissions. Departmental costs, including labor hours and supply costs, can then be adjusted according to changes in the

4 Key Improvement Initiatives:
> **Streamline processes.** Consolidate data from financial, employee and patient-centric sources.
> **Improve accuracy.** A statistically driven approach enables the efficient flow-through of volume/rate changes.
> **Promote buy-in.** Efficiently consolidate results of baseline projections and add-on initiatives.
> **Drive accountability.** Effective management reporting can show volume adjusted plans, identifies controllable expenses.
workload driver. Over time, workload drivers and KPIs can be evaluated in a given department to ensure that the targets that have been set are still reasonable given historical performance, future expectations related to patient volumes, and changes in payment and cost structures.

Members of the hospital’s finance team work with operations leaders to develop confidence around monthly reports and to educate them on cost realities. Each month, managers receive reports that compare the department or unit’s budgeted revenue and expenses with the department’s actual performance and an analysis of what the finance team believes the department’s performance should be. Managers have the ability to drill down into areas such as overtime utilization (When is overtime occurring? Are there specific employees who are generating the most overtime?), rate-per-hour increases, and efficiency. They also have the opportunity to comment on areas where exceptions have occurred. The finance team also shares with managers how patient days at a departmental level have been affected by changes in global drivers, such as overall volumes.

Mary Lanning has realized a number of benefits from establishing more effective frameworks for short-term and long-term financial planning:

> The hospital reduced its budget planning cycle by four weeks, and the amount of time spent on budgeting has been reduced by 33 percent across all functions.
> Managers are more easily able to see the relationships between volume drivers and departmental workload and have increased visibility into variables they can control and manage.
> Monthly variance reporting has improved significantly.
> The new processes have streamlined the process of capturing data, integrating the data across planning models, and using the data to drive decision making across the organization.

### Streamlining Capital Planning Processes

Capital planning has become an increasingly strategic function for hospitals and health systems. The allocation of capital dollars provides healthcare organizations with a true competitive advantage—or represents a lost opportunity. The challenge many organizations face is that they lack the structure and tools to streamline the evaluation, approval, and monitoring of capital projects and ensure consistency throughout the capital planning process.

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Mary Lanning has used a number of approaches to establish consistency in evaluating capital projects requests and improve reporting related to the hospital’s capital investment portfolio.

Common elements are required in each request. Standardizing the input form(s) associated with new capital requests has brought structure and consistency to the way proposed projects are evaluated across financial and nonfinancial measures. Project initiators provide data in their requests to define the following core elements of the project in a consistent manner:
- Project owner and sponsor
- Spend category (e.g., construction, clinical IT)
- Justification for the project
- Capital needs (current and future years)
- Timeline
- Strategic goal alignment

A standard workflow has been established for review of requests. All submissions follow the same workflow and can be conditional, allowing for the automation of alerts and notifications to downstream approvers. For example, large IT projects may require evaluation by the hospital’s IT and legal departments before they can be finalized. These ‘expert’ reviews ensure that each project is complete and accurate prior to committee review.

Evaluation and approval of projects is now centralized. Creating a central repository of all capital projects enables the project evaluation team to more effectively review and compare capital requests based on strategic “fit,” need, and priority, thereby helping leaders balance the portfolio of approved projects across construction, IT, and equipment investments.

A consistent method is used for tracking and reporting project progress. Mary Lanning sought to provide more consistent reviews of actual spend versus approved spend for each major capital project. This monitoring function is supported by transaction-level financial reporting and, where appropriate, includes commentary to highlight milestone achievement on major projects by named project sponsors.

The shift away from a resource-intensive, manual process for capital project approval to a more automated process has netted several benefits for the hospital. For one, it ensures that the right stakeholders are engaged, and for another, it provides greater transparency around capital requests and costs. Moreover, the increased collaboration between Mary Lanning’s IT, engineering, and supply chain departments that this process supports has helped keep cost and scheduling estimates in line and aids in ongoing tracking of projects.

**Enhanced Performance Analysis**

Mary Lanning also sought to improve the effectiveness and timeliness of performance reporting and provide greater insight for the hospital’s management team on why variances existed. Two key areas where greater visibility and accuracy were needed were monthly variance reporting and biweekly labor and productivity reporting.

Mary Lanning evaluated the reporting needs according to role, assessing what was effective in current reports and what was missing.

**Executive scorecards and KPI monitoring.** When delivered in a timely fashion, these metrics provide senior leaders with clear visibility into areas where immediate action is needed. Mary Lanning has introduced formal monthly performance reviews with vice presidents and leaders in finance and operations. These reviews provide an opportunity to discuss and evaluate performance trends, identify areas where more executive attention is warranted, and assign people who will be held accountable for driving change.

**Closed-loop management reporting.** Although executive scorecards improved senior leaders’ visibility into strategic objectives, goals, and measures across various categories, Mary Lanning’s finance team wanted to deliver actionable performance reporting to department managers who influenced cost decisions on a day-to-day basis. The team understood that the managers would require timely access to the right measures and in a format that they could easily understand, and that the reports should not be just a one-directional “dump” of statistics.
The finance team recommended that the reporting distribution process be redesigned to enable managers to benefit from on-line, self-service reporting and to quickly evaluate the root cause of outlier variances. Just as important, the new reports allow managers to provide feedback regarding outlier variances directly within the report. This feedback offers senior leaders greater insight into what the outliers are, why they occurred, and how they might be corrected.

For example, if expenses are higher for professional services within the nursing departments, feedback from managers can help senior leaders understand not only the magnitude of the variance, but also which departments incurred greater expense, and why. This type of communication promotes greater accountability and ownership at a departmental level while directing the attention of senior leaders to the areas where it is most needed.

**Labor cost reporting.** Labor, which can constitute as much as half of a hospital’s operating expenses, is often viewed as the most critical factor in both delivering higher-quality care and managing expenses. Mary Lanning prioritized labor management reporting as a critical function that must be accurate, timely, and insightful for key stakeholders.

The finance team’s first step was to automate delivery of biweekly reports to managers, directors, and senior leaders so that they could correlate and compare established targets for labor utilization with actual hours worked. Finance professionals and partnered with these leaders to evaluate workload statistics and performance benchmarks by job code and compare current performance with past performance. For example, how does the department’s performance compare with performance during the same period in the previous year? Which employees are being paid overtime? Which employees floated into the department?

Focused reporting around labor and productivity has had a significant bottom-line impact on the organization:

- Mary Lanning reduced personnel costs as a percentage of operating revenue to 50.3 percent in 2012, down from 54.6 percent 18 months earlier.
- The hospital’s finance team is now in the process of implementing cost accounting and service-line profitability reporting.
- Service-line analytics will soon be part of executive reports.

**Processes that Support Strategic Decisions**

Today, Mary Lanning’s finance team spends less time on administrative tasks and more time on critical analysis and strategic planning. Detailed and timely reports keep everyone in the loop and provide decision makers at every level with the ability to view consolidated results or drill down into specific details. The evolution to a more streamlined and dynamic financial planning and budgeting process has enabled Mary Lanning’s finance team to become more agile, flexible, and responsive in meeting the organization’s needs—and has positioned finance professionals to become true partners with operations managers throughout the organization.

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