

Chief financial officers (CFOs) and financial planning and analysis (FP&A) leaders from hospitals, health systems and physician organizations gathered for a recent workshop with leaders at Ernst & Young LLP to learn about trends, challenges their peers are currently facing, and how to use data and forecasting tools to aid strategic decision-making.

- ▶ CFOs and FP&A leaders are being asked to deliver more accurate and agile plans and at-a-glance analysis.
- ▶ Developing a capital allocation process that is fit for the future requires improved reporting capabilities and forecasting models.
- ▶ To improve long-term performance, CFOs and their companies must leverage connected planning and forecasting across the enterprise.

As the health care industry evolves at a rapid pace, CFOs and FP&A leaders within health provider organizations are feeling pressure from stakeholders to improve FP&A capabilities. Internal and external stakeholders are asking finance leaders increasingly sophisticated questions around supporting new business models, scenario planning and advanced reporting. Leaders want at-a-glance views of day-to-day operations and forecasts and user-friendly reporting capabilities that enable them to drill down into the data for insights they need much quicker.

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**The business is changing, business models are changing, and FP&A needs to play a better role in predicting for it.**

**Manpreet Singh,**  
Senior Manager, Ernst & Young LLP

## Finding opportunity in change

Many finance professionals realize the limitations of their current technologies and decision-supporting framework. This can be an opportunity for them to share their vision on forecasting and to change the thinking around not just budgets and planning but to position themselves as strategic advisors to the organization, advised **David Kirshner**, Health Market Lead, Ernst & Young LLP.

In an interactive poll, workshop participants cited scenario planning as their top priority. They want to be more agile and drive business decisions, using

internal and external data. In the past year, COVID-19 put a new spotlight on scenario planning, as many organizations had to plan for the possibility of shutting down operations or halting elective procedures due to lack of supplies or beds. Heading into the recovery, finance professionals want to continue these simulations, including laying out plans for aggressive and conservative outcomes and how that would affect decisions around workforce planning, for instance.

CFOs and FP&A leaders are looking to build more advanced systems, but a recent survey shows that key challenges stand in their way. The 2021 capital allocation survey of 100 health care provider CFOs showed that their top four concerns are:

- 1 Lack of access to data, which exists in silos or on a regional level but is not connected across the enterprise**
- 2 Inability to accurately prioritize projects**
- 3 Ineffective decision-making frameworks**
- 4 Lack of data analysis capability**

The vast majority of CFOs in the health care provider space (72%) rely on spreadsheets for capital allocation or investment decision-making, which stands in stark contrast to other sectors that are further along in the maturity of their systems, using data visualization tools and dashboards.

While spreadsheets work well for planning, they lack the ease of use and analytics-at-a-glance viewpoint that many people have grown accustomed to. People are better able to make decisions if the data is put into a format that is easy to engage with, Kirshner said. CFOs and FP&A leaders would be wise to organize and frame the data in a way that helps C-suite leaders see the issues that need addressing. “We don’t need to answer the questions. They are interested in making decisions based on the data, if we frame it correctly.”

Across industries, common challenges in business and financial planning include inaccurate forecasts and inefficient processes. While inaccurate forecasts do not inspire confidence in the CFO or controller’s abilities, the bigger challenge in the health care industry is that the reimbursement system is getting tighter, which means that decision support capabilities must improve.

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## Strategies and systems evolve

Those looking to upgrade their forecasting capabilities can begin by building a robust template that can serve as the backbone of the system. Although this is a manual and intensive approach at the beginning of the process, once the assumptions are plugged in to the formula-driven system, the data can be updated quickly.

Ernst & Young LLP has collaborated with various health providers across the country to improve their FP&A organizations. While some organizations are stepping forward by improving systems from the idea of finance as a facilitator to using finance as a strategic enabler, those at the top end of the spectrum want to position finance as a strategic advisor, with predictive models and real-time reporting dashboards. Getting there isn't just about finding the right software and technology investments, but also improving communication.

Another trend across the country is that organizations are shifting to service line budgets, rather than asset-based or entity-based models. As this thinking has shifted, some CFOs have inquired about rebuilding the systems from scratch, to establish a new approach, but there is no need to revamp the entire system all at once, advised **Natasha Hunerlach**, Partner, Ernst & Young LLP. Instead, she suggests CFOs and FP&A leaders work to improve the template they are currently using by bringing in more stakeholders to take part in the conversation. "The improvement comes from better buy-in, better participation and a better culture, that is, at the end of the day, enabled by a certain template or approach."

Communication also comes into play when working with a large affiliation, such as a health system with many hospitals. Hunerlach recalled working with a client where each hospital in the system had an FP&A process, a budget and a forecast, but the individual CFOs and FP&A leaders didn't believe that those forecasts could be consolidated. By helping the stakeholders establish a common set of well-defined goals, expectations and terminology, the client ultimately succeeded in its goal to provide a systemwide view.

## Getting there

Many health care settings are facing similar challenges as they work to improve their FP&A functions. Systems of the future will allow opportunities for interconnected planning, scenario planning and rolling forecasts with advanced analytics and predictive modeling. These functions will require CFOs and FP&A leaders to move beyond siloed spreadsheets, to define common data standards and to establish systems that improve the timeliness and quality of forecasts and reduce iterations and manual effort. As thinking evolves and needs change, advanced planning tools will give key players across the enterprise the data and forecasting frameworks they need to guide decisions going forward.

### Technology for planning

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