The ThedaCare Go Budget Free Story

ThedaCare is a health care system based in Appleton, WI. The system is comprised of two urban tertiary hospitals, three critical access hospitals, over 20 primary care physician clinics with over 120 providers, behavioral health services and senior services.

In setting his 2010 goals, Dean Gruener the ThedaCare CEO, committed to the board of directors that ThedaCare would reduce the waste in budgeting by 50%. For some time finance leadership at ThedaCare had wanted to replace the budget. Dean's goal provided the motivation to get the project going. In my newly assigned role as VP of Finance for Operations, I was given the task to lead the budget replacement project.

Creating the Budget Replacement:

Our hypothesis going into the project was that the traditional purpose of budgeting, first an annual financial plan and second a control mechanism, were important, but that there should be a much better way to accomplish the purpose than the budgeting process we were using at the time.

We did research and review in January to mid March of 2010. This review involved a literature search of budget replacement books and articles, interviews with CFOs and organizations operating without a budget, and documentation of our budgeting process that was in place.

The literature search identified two books, "Beyond Budgeting" by Jeremy Hope and Robin Fraser and "Implementing Beyond Budgeting" by Bjarte Bogsnes. Several articles were identified as well. The most beneficial information from the books and articles was the experiences, both good and bad, of the organizations that had gone budget free. There is also a wealth of information regarding the problems with traditional budgeting.

We established a manager position to work with me on the budget replacement project. Cindy Mischler who had previously worked as a CFO in a Critical Access Hospital was brought into this role. She spent a significant portion of the research and review time talking to ThedaCare employees and documenting the budget process as it existed. She also surveyed all management staff to determine their opinion of the budgeting process.

The expert interviews were done with two healthcare systems operating without a budget as well as finance experts and consultants experienced in "Lean" accounting practices.

For major initiatives (a value stream project) like replacing the budget, it is ThedaCare's practice to designate senior leadership members as sponsors. For the budget replacement project Tim Olsen, CFO and Kathryn Corriea were asked to fill that role. In addition, John Poole the senior leader for ThedaCare Improvement acted as a facilitator. Cindy and I met with the Sponsors several times during the research and review project. The sponsors were asked for feedback on the project plan and direction related to next steps of the projects.

In the third week of March 2010, a three day planning project to design the new processes for financial planning and financial management was held. The 20 participants in the project included senior leaders, division leaders, managers and supervisors. An outside lean facilitator, Brian Preston, from The Simpler Group was used to coordinate the three day planning project. The first day of the project we reviewed the research and the current approach to budgeting. The group consensus was to completely abandon the current approach to budgeting and define a new process for financial planning and management.

The participants were divided into four teams and asked to each brainstorm a new process for financial planning. The teams were brought back together and each team presented their approach. Following questions of each team, a best option was selected by consensus. The teams were then asked to work improving the best option. When the teams reconvened, they presented their revision of the best option. The project group then selected the new approach to financial planning from the presentations.

The same approach was used to define a new financial management process. Once a new process for financial management was created, the group worked on high level project planning. The major project steps were identified for both processes, financial planning and financial management. The group's initial thoughts on work needed to complete each major project step was identified and documented.

With two new processes developed, the communication and education part of the budget replacement began. The processes were presented to the System Leadership Team as well as the finance committee. Senior leaders were very supportive while the finance committee of the board was more than a little skeptical. Our message to the finance committee was that a budget was not the only way to do financial planning. We also assured them that the financial planning process would allow us to produce the same documents for their annual financial plan review that had been produced in the past from the budget.

Implementing the Quarterly Financial Planning Process:

In consultation with the sponsors, we decided to work on building the new financial planning process first because a budget existed for 2010 so the new financial management process would not be needed until January of 2011. This decision meant that we had three months, April to June of 2010, to build the new process because we wanted to use the new planning process in July of 2010.

For financial planning, a process that used quarterly planning at a high level for major operating units was defined by the three day project. It was labeled the "Quarterly Financial Planning Process." It required creating a financial model using assumptions and price level changes as inputs to forecast six future quarters on the basis of the most recent four quarters. Six was selected as the number of quarters to forecast because mid-way through the current fiscal year we would have a first look at next fiscal year. The feeling was that beyond six quarters, the assumptions to be made in forecasting would be just a guess.

During April to June of 2010, finance staff defined and built the detailed approach to quarterly financial planning. The finance staff created a project plan that outlined the steps needed to be ready for July. The plan included creating the model as well as activities and flow of the quarterly cycle. The quarterly cycle includes some activity that occurs before the end of the calendar quarter, but the bulk of the process begins after the books are closed for the quarter.

A description of the first quarterly cycle in July 2010 follows;

> Prior to quarter end, work is done to identify major business initiatives or environmental economic impacts that need to factored into the next quarterly financial plan. A materiality threshold was established so that major impacts would only be those items that had a significant impact on revenue, expense, or the bottom line.
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> Once the books are closed for the quarter, the first pass of the financial model is created. The major assumptions, key demand indicators (KDI) and key expense drivers (KED) are identified and factored into the model. Worksheets are created to distribute to each business unit and a one hour meeting is scheduled with the leadership team to review the forecast. At the quarterly review meeting, business unit leaders review the forecast and make any changes to the KDIs or KEDs that the group feels is needed. Business unit leaders were assigned a KDI to track on a weekly basis so that at the quarter end the assumptions are based on experience and are made by operating staff, not financial analysts.
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> After every business unit has completed their quarterly review meeting, finance staff summarized the assumptions by business unit into a system quarterly financial plan. Then finance leadership and system leadership reviews the plan and understands the implications for meeting the system financial targets, or not. The next step is a quarterly financial planning meeting of two hours.

> At the quarterly financial planning meeting each business unit leader presents their KDIs and forecast for the next six quarters. Part of the presentation is a discussion of financial plan results to targets. If targets are not being met in the future the business unit leaders explains how and when the targets will be met. There is time for Q & A on each business unit as well.

In August of 2010 a second educational session was provided to the finance committee. The differences and similarities of budgeting and quarterly financial planning were discussed. The first quarterly financial planning cycle was reviewed and we discussed our plans for the October cycle. The committee consensus was that if management felt that the process was ready to replace the budget, then they would support moving forward.

During October of 2010 we went through the second cycle of the quarterly planning process. The cycle went well and finance leadership made the decision to proceed with the 2011 financial plan using the results of this quarterly financial plan. While the quarterly financial plan was the expectation of what would happen over the next six quarters, the operating margin and productivity improvement targets were not met in the plan. Two system leaders were given the task of identifying operating improvements that would be implemented in addition to the plan which would bring the plan in line with financial targets. The finance committee and board received and approved a financial plan in December that was based on the rolling six quarter forecast.

Implementing the Financial Management Process:

The system leader sponsors for building the financial management process were Kathryn Corriea and Rose Crow. We met several times in preparation for the project to define the details of the financial management process. One thing stood out as we discussed the project, ThedaCare did not have a succinct set of manager expectations for financial planning. Working with the sponsors, Cindy and I created a one page document to fill this need.

During the second week of November 2010, the project team met to create the financial management process (value Stream). The sponsors limited the scope of the project to delivering information to managers and excluded any expectations or training of what mangers would do with the information. The information that managers thought would be useful was real time units of service and man hours which would enable them to understand productivity. Over time managers could know whether the driver of improving productivity is units of service volume, staffing to demand, or process improvements. It was also determined that actual historical information would be used as the benchmark for current performance. Because postings of revenue and expense to the general ledger are done at month end, departmental income statements could still only be produced at month end. The thinking was if we focused on staffing, the major expense, and demand, then month end financial results would be on target.

During the third week of November 2010 a team met to create the implementation plan for real time financial management. A major focus of the time was to identify units of service across the system and then refine the list into a common and consistent set of definitions across the system. We also looked at our information technology infrastructure and decided that a new Business Intelligence tool, QlikView, would be used to deliver the information to mangers.

Through the middle of December, finance staff worked to create the tools in QlikView and to create the education and training plans for managers. Communication with System leadership continued. The set of manager financial expectations was distributed and explained to managers after system leadership approved it. Training of managers took place in January of 2011 and they began managing without a budget.

Additional steps were planned for the financial management process. These included standardizing the use of the daily information, improving staffing to demand and providing future demand information to assist in staffing. The finance plan project team also identified that 13 four week periods in a fiscal year would simplify the understanding of financial information for non-financial mangers by eliminating the payroll accrual and reversal process. That improvement would have added another significant layer of complexity to the initial change process, so it was put on a list of future changes to consider.

Connecting the Financial Planning Process to the Financial Management Process:

Annually senior leadership, the finance committee and board set financial targets. These targets included business growth, net income percentage, productivity improvement percentages and total expense change percentage. The rolling six quarter forecast was driven by these global system level targets. Because the financial planning process and the financial management processes were treated as two distinct business processes, there was a need to be confident that the financial management process would lead to achieving the system level financial targets.

The tool that made the connection was the one page document outlining manager financial expectations. For revenue producing departments, the main expectation was a 3% improvement in cost per unit of service. These departments were also expected to productivity by 3% and have a 3% improvement in their total contribution margin, adjusted for volume impacts. Overhead departments were expected to reduce total expense by 3% compared to the prior fiscal year. The finance leadership team was confident that meeting departmental financial goals would result in achieving system wide financial goals.