What CFOs Want

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by Mark Hagland

Financial executives are reviewing IT proposals with keener eyes thanever before. Here's what they're looking for.

Ask financial executives Mike Vaci and Nina Hayes what things go through their minds when they're approached with proposals to invest in capital projects such as information technology, and they will give you essentially the same answer.

That might be surprising, because Vaci, director of financial planning at Northwestern Memorial Hospital, works on a finance staff that encompasses more than 300 full-time equivalents at a 720-bed hospital in the heart of downtown Chicago, while Hayes, chief financial officer, is the sole finance manager at the 22-bed Decatur County Hospital in Parsons, TN, population 2,450.

Regardless of facility size, Vaci, Hayes, and other healthcare finance executives across the country agree that capital investments are scrutinized very closely these days. They say the straitened reimbursement environment, increased regulatory demands, competing capital and technology needs, and intensifying local market competition among hospitals have created a situation in which, more than ever, health information management managers and professionals must rigorously demonstrate the far-reaching value of the capital investments they propose.

Thinking Like a CFO

Reviews of capital expenditure requests at Northwestern are initially reviewed from a high level, says Vaci. The first question the team asks is "Are we investing along strategic lines—are we investing in capital that will help us achieve our strategic plan?'"

Proposals that fail to meet core strategic requirements will face a tough sell in all organizations, and CFOs will be just the start. CEOs and board members are even more concerned than financial officers that capital expenditures are strategically on target and exhibit an ability to advance the organization's mission.

Thus, tech investment proposals must be thought through at the highest strategic levels, says Steve McDermott, CEO of Hill Physicians Medical Group, a 2,000-physician independent practice association. McDermott's first two questions for department leaders proposing capital expenditures are "How can you meet the needs of others within the company, your internal customers, and how can they then support the expansion and growth of your unit?" Satisfactory answers to these questions demonstrate to McDermott that a proposal has the ability to move the overall organization forward.

Northwestern updates its strategic plan periodically and its long-term financial plan annually, says Vaci. The finance team studies proposed capital projects and assesses their feasibility. At the same time, the team prepares the next year's operating budget and determines how much capital the facility will invest. Money is set aside for capital projects, and other money is earmarked for routine investing in existing technology and infrastructure.

Vaci encourages HIM professionals to consider the balance that financial teams seek between investment and return. On the one hand, Vaci and his colleagues welcome opportunities for their hospital to invest in technologies and initiatives that will make the hospital's staff and clinicians more productive or make the hospital more competitive in the market. On the other hand, they must think rigorously in terms of return on investment (ROI) for any major capital outlays.

That demand is no different for Hayes's much smaller facility. "HIM professionals and leaders in any department need to be able to show all the reasons an investment would enhance their job or department and how it would enhance the operations of the hospital," she says. Given the small size of Decatur County Hospital and its limited resources, Hayes studies every factor when considering capital investments.

For this reason, it's important that HIM professionals who submit proposals consider all possible benefits from a capital expenditure. As illustration, Hayes points to a situation at Decatur County Hospital that helped move forward investment in a document-imaging system and eventual full electronic health record system. Improvements to patient care and streamlining of administrative processes were central benefits, but an additional motivating factor in the decision was the freeing of highly valuable physical space. "The whole building is only 32,000 square feet," notes Hayes, and every square foot in the small facility counts a great deal. So though the hospital employs just one coder and three transcriptionists, Hayes was favorably disposed to investing in HIM information technologies.

Good Financial Advice

Financial executives may be tough sells in the current healthcare environment, but it doesn't mean they aren't waiting for a good pitch. To craft strong proposals, they advise HIM professionals to:

- Clearly relate spending to strategy. Proposed capital investments must support the organization's broad strategic, business, and operational goals.
- Research estimated and projected costs and savings thoroughly. Sit down at appropriate times in the process with finance experts, information technology experts, and other appropriate experts to help evaluate the proposed capital investment. These colleagues can help guide the process and ensure that cost and savings projections are well researched, well founded, and factually based.
- Establish a strong case for ROI. ROI can be either hard (e.g., will the investment produce revenue, enhance cash flow, or eliminate full-time equivalents?) or soft (e.g., will it reduce patient care errors or improve the organization's ability to recruit staff?). Either way, the need to project credible ROI has become essential.
- Study external forces. Recognize that market competition and regulatory factors often motivate CFOs to make investments in information technology.
- Get the bigger picture on outlays. Maintain good relationships with finance, IT, and other experts and leaders in the organization. Through such relationships, HIM professionals gain a clear sense of the kinds of investments and capital outlays their organizations view positively.

Demonstrating ROI

"Let me tell you what we finance guys are looking for," says Bruce Hallowell, vice president of revenue cycle practice at the national consulting firm First Consulting Group. "We're looking for ROI in 12 months," he says flatly.

There are five kinds of ROI, according to Hallowell. The first is increased net revenues, such as maximized reimbursement due to more specific coding. The second is a reduction in accounts receivable days, the result of faster coding, for example.

Improved coding can result in the third type of ROI, savings due to fewer compliance issues. The fourth involves cutting costs through the purchase of equipment; a scanning system, for example. The final type of ROI is harder to quantify, says Hallowell—improved patient care or patient safety. It's a real and vital benefit, but, as Hallowell notes, such a return is sometimes referred to as a "fuzzy" benefit.

Requirements vary on the "hardness" of ROI. Some CFOs, like Laraine Gengler of the 25-bed Lindsborg Community Hospital in Kansas, have fairly stringent standards. "The first criterion" for evaluating a capital investment proposal, says Gengler, "is whether or not it will produce revenue; the second is what it will do to cash flow. And probably the third is what it will do to make the department more efficient." Gengler says there are numerous things she'd love for her hospital to invest in, but its status as a small private hospital, with most capital investments financially supported by benefactors, means the list of wish-fors will always be longer than the list of feasible improvements.

Gengler urges HIM professionals to research their proposals thoroughly before submitting them. Presenting a single option with the endorsement "this is the best item out there" won't advance a proposal very far with Gengler. "I'd want to see three to four different proposals [for a particular type of purchase]," she says, "and I'd want to see how the product or program would make things more timely and efficient for the physicians as well as for the patients."

Promising Future for IT Investments

At Bournemouth Hospital in Chestnut Hill, MA, CFO Michael Gale notes that a range of elements are behind his organization's need to invest in new and enhanced information technologies. For one thing, the 90-bed inpatient psychiatric facility is a stand-alone hospital in the behavioral care world, which is dominated by large chains. In order to even compete it's been crucial for his organization to invest in technology, he says. And that, of course, predisposes him strongly to work collaboratively with HIM and IT staff to invest wisely in information technologies.

An additional, specific motivator at Bournemouth is unique to the behavioral health sector. HIPAA mandates the use of ICD-9 codes, a significant change for the behavioral health field, where the *Diagnostic and Statistical Manual* (DSM) has been the standard—and often considered by providers the more relevant—language for behavioral health. Bournemouth has struggled with how to use ICD-9 for billing, says Gale. In order to allow the organization's physicians to "speak in the DSM language [and] code in that language," Gale and his colleagues have worked with a vendor to create a coding "crosswalk" system that uses both DSM and ICD-9. That, of course, has required system upgrade and customization.

To prepare the proposal, Gale says the team first defined the requirements of the system, then interacted closely with the vendor to work up a cost. The resulting budget proposal and cost analysis went to the hospital's CEO and board for approval.

Bournemouth's example, Gale says, demonstrates the important role HIM professionals can play in collaborating with IT, finance, clinical, and other organization leaders to conceive and create strong proposals for IT improvements that address core needs and requirements.

Bournemouth won't be the only healthcare facility committing to IT capital projects in the foreseeable future. Despite the tight times, industry experts predict more IT and infrastructure spending up ahead, out of necessity.

Proposing capital investments will actually become easier, says Hallowell. For one thing, some level of automation will be essential just to stay in the game. "The only way to gain efficiencies in healthcare is through automation," he says. He points to coding automation that saves time and money as an example. From the finance department's point of view, says Hallowell, the goal is to lower the cost per unit of providing a service. In that regard, he urges HIM professionals to stretch their vision, asking how technology can increase efficiency in an electronic HIM environment.

In the end, says Northwestern's Vaci, "It's important to be as realistic as possible" and to research as thoroughly as possible any proposal for capital outlay. Tight investment budgets are unlikely to loosen in the foreseeable future, he notes.

The good news for HIM is that finance executives are actively seeking innovations to make their organizations more efficient. A well-crafted IT proposal that thoroughly demonstrates ROI may be just the thing.

High Interest in High Tech

Although finance executives report they examine proposals with a cold, keen eye on ROI, they also express great interest in high-tech proposals. That's good news for HIM departments, where the benefits of information technology investments often ripple outward to benefit many departments throughout an organization. Healthcare finance executives say they place high value on investments that return benefits such as the following:

- Increased clinician and staff efficiency, improved clinical decision support and clinical outcomes, and enhanced patient safety
- Dramatic reduction in paper clutter and paper-based transactions and operations
- A competitive edge in local markets
- Optimized staffing and operations

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