



Pursuing excellence: What's next for finance in healthcare?

The role of a center of excellence for finance operations in delivering healthcare value

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Executive summary

Today's healthcare organizations have a very challenging role: deliver excellent healthcare for every patient at an optimal cost. The emphasis for healthcare providers has been on improving healthcare delivery processes and models. Health outcomes and, to a certain extent, cost structures, have improved as a result. While this pattern is to be encouraged, healthcare organizations must also focus on achieving operational finance excellence. Operational finance excellence refers to the use of tools, methodologies, systems, and so on, to provide best-in-class financial analysis, reporting, and management of resources for the delivery of healthcare.

A finance center of excellence (CoE) is an organization that assumes responsibility to develop the healthcare system's operational finance excellence. With the right focus and structure, a finance CoE can be an effective vehicle for national healthcare systems to drive operational finance excellence and achieve improved healthcare value. This focus on operational finance excellence is even more pressing now, as the requirements for success in healthcare have been further complicated by the expanding need for innovation, agility, resilience, and integration.

1. Healthcare value excellence is the goal

“Excellence is doing ordinary things extraordinarily well” – according to John W. Gardner, US Secretary of State for Health, Education, and Welfare in the mid-1960s. A culture of *doing ordinary things extraordinarily well* is a goal all organizations should strive for. One way to ensure that operations are continuously done extraordinarily well is to identify the best process for achieving a desired outcome and then replicate this established process anywhere and anytime the outcome in question is required. This exercise of identifying and propagating best practice is best carried out by a CoE, which organizations can use as a place to consider philosophies, approaches, and theories, and to develop, curate, and disseminate knowledge effectively within a system to achieve improvements.

Excellence in a changing health landscape

Healthcare delivery is changing and the need to pursue overall operational excellence is more acute than ever, having quickly shifted from seeking the best value for patients in normal business times to getting the best value for patients in very uncertain times. Today’s new normal requires innovation, agility, resilience, and integration within the healthcare ecosystem. Services like telemedicine, previously on the fringes of healthcare, are now moving toward the center of service delivery. Improved overall integration between primary care and secondary care continues to be a necessary goal. Healthcare systems must routinely seriously consider strategies for resilience in their normal planning cycle. All these advances must be performed while delivering best-value healthcare, particularly in the public sector, where significant attention is paid to the stewardship of public resources.¹

Defining healthcare value

A classic economic definition of value, from Harvard Business School Professor Michael E. Porter, is outcomes relative to cost (see Figure 1). Given that measure, to be excellent in delivering value, the excellent delivery of outcomes must be done at an optimal cost. Value has been a fundamental consideration for healthcare systems, especially where resource constraints require particular emphasis on the need for optimizing treatment pathways.² Determining the best way to balance the relatively straightforward total, or average cost of delivery, compared to the far less straightforward valuation of patient and population outcomes sits at the heart of the debate on healthcare value, particularly in public healthcare systems. It is a debate that highlights the need for operational finance excellence – the use of tools, methodologies, systems, and so on, to provide best-in-class financial analysis, reporting, and management of resources for the delivery of healthcare.

Figure 1: Porter’s definition of value



Source: Harvard Business School, Professor Michael E. Porter

¹ Source: Bennington, John, and Mark H. Moore, *Public Value: Theory and Practice*, 2011

² Source: “BRICS seek value for money as health-care costs rise,” *Bulletin of the World Health Organization*, 2014

2. Clinical excellence has more prominent structures than finance excellence

The existing setup in the delivery of healthcare is more favorable to the achievement of excellence in health outcomes than for achieving operational finance excellence. Healthcare systems tend to be organized in such a way that healthcare expertise for specific diseases is developed in a central place and cascaded down to where the knowledge is needed. A good example of this is organization by specialty, along with the referral system, with knowledge moving downstream and patients moving upstream. This setup is well recognized by medical practitioners from a very early point in their training. Indeed, medical specialties have associations, academies, and colleges where knowledge is developed and cascaded down or out to the broader profession. In this way, these “centers of knowledge” serve as “centers of health outcomes excellence” for specific medical specialties.

The healthcare referral system

Healthcare delivery is often organized in three layers – primary, secondary, and tertiary – with increasing levels of knowledge residing in each layer as you approach the tertiary layer. In this system, patients are initially seen in primary care and only escalated to secondary care if their condition requires a higher level of medical knowledge for the specific condition. Those cases are then treated in secondary care and only referred to tertiary care if an even higher degree of knowledge is required to address the patient’s condition. In this system of healthcare referral, specialist knowledge is at its highest concentration in the tertiary centers. The experts develop the knowledge and cascade it down to the rest of the healthcare system (via publications, formularies, seminars, medical advice, etc.) such that their colleagues can manage routine/ordinary cases extraordinarily well and refer only unique cases up the chain of expertise. This arrangement supports the concentration of knowledge in centers of health outcomes excellence.

Finance in healthcare

In comparison with the setup that supports health outcomes excellence, operational finance excellence, particularly in developing healthcare systems, may not have a structure in which to generate and cascade knowledge. Better structures are often present in more mature healthcare systems, perhaps at the regional or local level, and work effectively. However, there may be issues with the visibility and prominence of these structures. The UK’s Future-Focused Finance (FFF) program, for example, is the most visible structure for developing and sharing financial expertise within the UK’s National Health Service (NHS); it shares myriad excellent features present in clinical specialties. However, given that FFF is a product of its environment, it does not hold a monopoly on financial expertise, and engagement with FFF is largely optional. In mature healthcare systems, finance expertise undoubtedly exists in the system, but the knowledge is not always as readily accessible as it is with health outcomes delivery.

The consequence of the way operational finance healthcare expertise is organized in some highly mature systems is that, while it can meet the need for expertise development and sharing within its own context, it rarely offers a cohesive model that can be readily emulated in developing healthcare systems. Where there is no strategic effort to set up a functioning CoE, expertise cannot be harnessed, replicated, or disseminated in an efficient way; thus, the goal of achieving value excellence may be more difficult to achieve. This situation is further exacerbated by the changing demands of healthcare, which require a dynamic operational finance healthcare professional who can work effectively with healthcare colleagues to deliver value in a system that requires more innovation, agility, resilience, and integration.

3. Get inspiration from the success of other non-patient-facing functions

The delivery of healthcare is enabled by many important specialist functions, such as finance, that are not patient-facing but are integral, nevertheless, to its success. These functions include facilities management, legal, human resources, procurement, and more. While finance has long been a key corporate function in healthcare organizations, other functions have emerged more recently, as the delivery of healthcare has become more complex with new requirements to meet changing needs. Of these functions, procurement has made significant strides over the years and can serve as inspiration for the development of operational finance excellence.

Procurement can be an inspiration for finance

Procurement in healthcare has developed over the years, necessitated in part by the growing cost of healthcare delivery and the increasing number of options to achieve improved health outcomes. In some countries, the procurement function in healthcare has developed thanks to the creation of a national body to drive excellence. For example, in the early 1990s, the UK government established the NHS Supplies Authority to ensure an effective, efficient, and economic purchasing and supplies logistics service for the whole of the NHS. This national body included training and data teams that sought to develop procurement expertise across the country's healthcare system. The NHS Supplies Authority also developed and disseminated supply chain frameworks for healthcare organizations and put in place regional bodies to serve as interfaces with local hospitals.

The national body for procurement excellence in the UK healthcare system has undergone several changes over the years, in accordance with the healthcare agenda and other demands of the system. For example, there has been a move in England toward less control from the center (unlike in other UK nations); nonetheless, the current national body, NHS Supply Chain, continues to be a source of procurement excellence support to regional and local healthcare bodies, and some of its successes provide inspiration for operational finance excellence in healthcare.

Reflecting on the state of healthcare procurement expertise in NHS, Simon Walsh (Group Procurement Director, Manchester University, NHS Foundation Trust), who has worked in NHS procurement for decades, supports the idea of a strong national body that coordinates and develops expertise across the healthcare system, with some delegation of duties to the regions. He observes that there will always be a debate over what should be done nationally, regionally, and locally. However, all things considered, in his experience, the presence of a national body has been good for improving procurement skills across the UK healthcare system.

4. Select an area of primary focus for the finance CoE

A CoE for operational finance can serve as a place where finance and accounting theories, standards, approaches, and so on, can be considered, and where operational finance intellectual capital can be developed and curated for effective dissemination within a system to achieve improvements. There are several areas of primary focus in which an operational finance CoE can seek to develop expertise. These include but are not restricted to: (1) processing efficiency, (2) benchmarking, and (3) knowledge/best practice development and dissemination:

- **Processing efficiency.** Finance CoEs can focus on processing efficiency, in which case the goal is to consolidate standardized processes and carry them out in the most efficient way possible. This focus is ideal where the need is to process high volumes of transactions at a low cost. While the focus on processing transactions is important – and the reduction of cost is always part of the healthcare discourse – the drive toward value excellence requires a greater level of engagement from finance beyond transaction processing. Therefore, a finance CoE in a dynamic and evolving healthcare system may have to pursue a primary focus that goes beyond processing efficiency.
- **Benchmarking.** A CoE for operational finance can also focus on benchmarking organizations across the healthcare system in such a way that healthcare organizations can compare their own management of financial resources with that of their counterparts. This is a very important function, as it encourages healthy competition in the healthcare system. While benchmarking is good at showing performance and ranking organizations against each other, it may not be as effective in showing how performance is achieved and how exceptional circumstances can be managed. Benchmarking may serve as a good secondary focus for a finance CoE, but it may be lacking as a compelling force for effective change in driving value excellence.

- **Knowledge/best practice development and dissemination.**

An operational finance CoE can operate with a primary focus on improving finance competence in the system. This involves the generation (e.g., through research), curation (e.g., arrangements according to operational finance processes), and dissemination of operational finance knowledge, combined with the support for adoption of best practice across the healthcare system. This focus is most suited to a healthcare system that seeks to promote competence in a uniform way, ensure national or regional standardization where possible, and cater for anomalies in a dynamic way. This focus is ideal for providing support from a national level to organizations carrying out financial processes of varying complexity and where regional and local differences may need to be accommodated.

Healthcare value should guide the focus

Looking at the setup for healthcare delivery in countries where healthcare is organized at a national level, local healthcare organizations receive advice and guidance from the experts, but local healthcare organizations ultimately are responsible for implementing the advice and delivering patient outcomes. This model supports accountability and local ownership of actions and results. Under this model, finance CoEs that focus on effective dissemination of knowledge and adoption of best practice, with accountability remaining with local healthcare organizations, are the best choice to support finance excellence and balance out the value equation.

5. Set up finance CoEs to effectively disseminate finance expertise

As with the three-layer system that supports the advancement of healthcare delivery excellence (i.e., primary, secondary, and tertiary), a system with a gradient of knowledge flowing downstream from the center and queries flowing back up to the center is an efficient design structure for the dissemination of knowledge. In such a system for operational finance excellence, a national CoE can concentrate knowledge in the center and support finance teams in hospitals via regional enablers (see Figure 2). (Note: this is mainly applicable to countries with national public healthcare systems.)

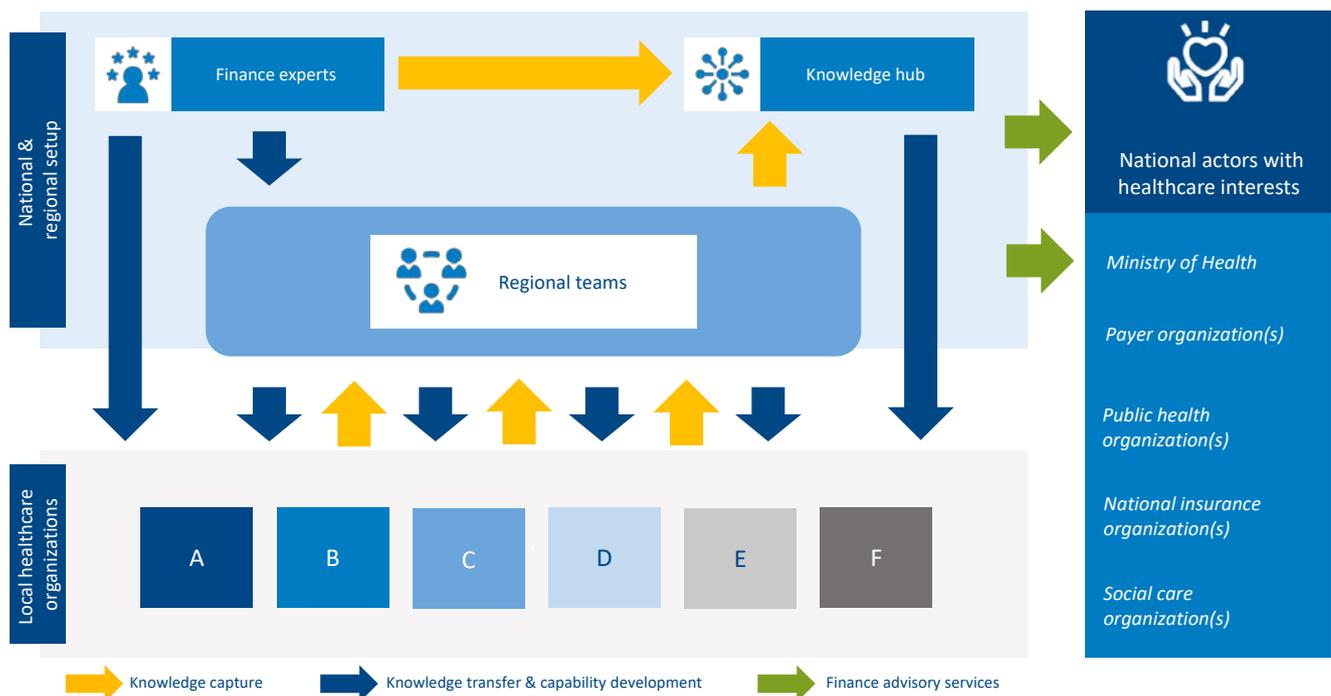
Finance experts at the center

For national healthcare systems, the finance CoE can concentrate its expertise at the national level to ensure that it is catering effectively to the wider needs of the national healthcare ecosystem.

To enable efficiency, a knowledge hub can be used to house all the models, frameworks, answers to frequently asked questions, and so forth. This hub can be designed to enable self-service by finance staff in the national healthcare system.

Within the finance CoE, expertise should aim to mirror (as much as possible) the specializations present in finance operations in healthcare organizations. These include general accounting, payables, receivables, fixed assets, costing, budgeting, and the like. National experts should be able to draw on experience and best practice to design frameworks for routine finance and accounting work, interpret finance and accounting regulation to meet the needs of the healthcare system, and provide advice for unique cases that healthcare finance practitioners encounter. The experts at the center should work closely with regional staff, who should be the interface with the local teams.

Figure 2: Finance CoE operating model



Source: Arthur D. Little analysis

Regional liaison managers

The regional teams can be set up as liaison managers with the local healthcare organizations. Liaison managers are not subject matter experts but rather relationship managers. Their role should be to understand the needs of the local healthcare finance teams and convey those needs to the central body of the finance CoE. The chief financial officer and heads of finance departments in the local healthcare bodies are the main points of regular contact for the regional teams.

The regional teams play a very significant role in ensuring that feedback from local teams is received and acted upon by the central team of finance experts. For example, a topic that has been addressed in the knowledge hub by the central team may still require further training and discussion to entrench good practice. The regional teams will be able to convey that piece of intelligence to the central team and arrange training sessions, where the central expert meets with teams across the country to discuss the centrally designed tools/frameworks and provides advice on how to get the best out of the teams.

6. Create a finance CoE to ensure delivery of healthcare value

Since healthcare value is delivered *only* if health outcomes and optimum cost are achieved, it is only partly effective to focus on excellence in delivering health outcomes. With health outcomes excellence already receiving significant attention and support from existing, well-defined structures, the time is right to focus on achieving operational finance excellence.

Healthcare organizations can achieve operational finance excellence by setting up a finance CoE and mandating the creation, curation, and dissemination of knowledge in a way that will: (1) effectively cater to the needs of the entire healthcare system and (2) ingrain the behaviors needed to support the delivery of healthcare value in these changing times. For countries with developing national healthcare systems, this is an imperative for the realization of healthcare value.

A badge of excellence

Most corporate functions are assessed by what it costs to run the function. In addition to delivering increased healthcare value, a CoE for operational finance may bring the added benefit of changing how corporate functions are assessed. By delivering excellence in operational finance and improving healthcare value, effective finance CoEs may succeed in moving healthcare executives away from a focus on the cost of running a corporate function to assessing how the corporate function has contributed to the achievement of healthcare value excellence (see Figure 3). This is no small feat. Therefore, if achieved, healthcare finance operations will deserve a badge of excellence – an honor reserved only for healthcare functions that *do ordinary things extraordinarily well*.

Figure 3: Healthcare finance CoE summary



Source: Arthur D. Little analysis

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The role of a center of excellence for finance operations in delivering healthcare value

Arthur D. Little

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