Key Factors to Consider When Aligning Organizational Strategic Plans with Capital Asset Management

Strategic plans can either serve as a roadmap that defines goals for the organization to strive towards as a collective unit or as a document that sits untouched on the shelf of a busy healthcare administrator’s office. The difference between the two is a matter of reverence and commitment. *The Medical Practice Management Body of Knowledge (BOK)* explains, “strategic planning is a complex and ongoing process of organizational changes. It is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future” (31). Therefore, in order for a strategic plan to function at its highest potential, healthcare leaders must continuously consider it during organizational decisions, especially in regards to capital asset management. Capital assets are areas or items that the practice has significant amounts of money or equity invested in and that will eventually become a part of the institution. Examples range from a physician practices’ property building to the investments associated with implementing a new service line. Hence, for a practice to progress towards their financial goals, it is imperative that leadership consider and understand what key factors will be most important when aligning the strategic plan with capital asset management plans. This exploratory paper highlights the importance of developing and maintaining a strong strategic plan and discusses key factors necessary to tie that plan to tangible capital asset management goals. A review of Medical Group Management Association (MGMA) connection articles, secondary research, and personal interviews with current leaders in
healthcare management are used to define and elaborate the value of including capital asset management in strategic planning phases as well as management options.

**Creation and Importance of Strategic Plans**

Strategic plans allow organizations to unite and motivate its members to prioritize initiatives and move towards particular goals. *The Medical Practice Management BOK* states that strategic development is the process by which decisions and actions are taken in order to lead to the implementation of an effective strategy and allow the organization to achieve its long-term objectives (31). To achieve successful actions, leadership must be patient and intentional about establishing the groundwork for change. Therefore, the first step to developing a strategic plan is to determine who should be on the leadership team. Elected individuals should be representative of the various perspectives and ideas of those who will be impacted by the decisions of the strategic plan will effect. Building management consensus with consistent meetings where members focus on discussing and developing common goals is the second step. In the initial stages, most groups establish monthly or quarterly meetings to gather leadership and develop goals. The consistency of these meetings is invaluable to build momentum and engage stakeholders. It also allows members necessary time in-between meetings to consider priorities and feedback from the parties they represent.

During the initial meetings, leadership should start by examining the present state of their organization. Before developing goals, review of current state assessments is important to understand and evaluate in order to prioritize specific areas of concern. In her 2010 *Strategic Planning report*, Linda Gates stated that typical strategic planning processes begin with an examination of an organization’s current environment and
abilities and then considers how it would like to grow (3). By understanding the present state of an organization, leadership can then decide where efforts should be focused on.

After the current state assessments are completed, leadership can begin to determine organizational aspirations. It is at this stage of strategic planning where it is critical that leadership be intimately involved and critical of the goals expressed by all parties. It is important that they make decisions that will benefit the organization as a whole rather than getting distracted by the influence of a few individuals. The consistency of the strategic plan meetings also aids in this area because it allows leadership to discuss common themes brought up by parties. By openly discussing feedback, leadership provide the opportunity to build trust among themselves as well as develop action plans and execution strategies. Action plans should be intentional, specific for the strategic plan, and detail tasks for each leader to complete. Leadership should be sure to follow up on tasks at meetings and hold other leaders accountable for their contributions.

One of the potential roadblocks healthcare organizations face is having the voice of a few individuals disproportionately represent the concerns of the group. To ensure that prioritized needs are met, it is important that the leaders are able to respectfully articulate how established goals are relevant to all members of the group. Although dealing with strong personalities is challenging, experts in the healthcare field have developed strategies to overcome such difficulties. Specifically, in her 2016 MGMA Connection article *Dealing with Disruptive Physicians*, Holmes explains that confronting problems and recruiting support where needed in order to address disruptive behavior and attitudes is challenging but worthwhile (4). It is important to maintain engagement from
all parties involved the strategic plan, which can be accomplished by quickly and effectively addressing concerns from other leaders.

**Maintenance of the Strategic Plan**

After creating a strong, strategic plan, maintaining that plan is of the utmost importance to ensure continued movement. *The Medical Practice Management BOK*, states the following about strategic plans goals, responsibilities, and accountability:

Tactics delineated in the operation plan deal with action items, short-term horizons, and individual responsibilities to attain measurable goals. Tactics are the duty of the management team, while strategies fall to the physician and executive leadership and the board of directors (33). This explanation clearly describes the types of responsibilities that should be assigned to all leaders involved with the strategic plan. It is important that responsibilities be assigned appropriately so that each member is able to perform to their best capability.

Having the appropriate role assignments also helps with continued buy-in and participation from all stakeholders by keeping meeting topics relevant.

Although there are multiple ways to track progression of the strategic plan, the ultimate test, however, is if the strategic plan continues to develop and come to fruition. Assessing the maintenance of the strategic plan can be achieved using a Balanced Scorecard (BSC). The BSC provides non-financial performance measures to traditional financial metrics that gives managers a more “balanced” view of organizational performance (Grigoroudis, Orfanoudake, and Zopounidis, 2010). Included in BSC are categories, such as quality of provided services, satisfaction of internal and external customers, self-improvement system of the organization, and any other organization specific goals. This type of tracking system is remarkable because it provides trackable
goals for leadership that can also be reflected throughout time. In the 2016 MGMA Connection article *Building Blocks of Data-Driven Organization*, Rezen suggested the following Key Performance Indicators (KPIs):

- Service (patient satisfaction scores and telephone service)
- People (physician staffing levels)
- Employee retention, employee utilization)
- Quality (chart completion for continuity of care and Centers for Medicare & Medicaid Services meaningful use goals)
- Growth (total work Relative Value Units, new patient visits, contract revenue)
- Finance (pre-provider compensation cost-to-revenue ratio) (4-5).

If an organization decides to utilize scorecards to track strategic plan performance, then the organization also needs to determine how often to collect data. Data collection is a heavy task for an organization to take on, so the data must be used appropriately if resources are invested.

One potential roadblock in a strategic, maintenance plan is the follow through of responsibilities and task assignment. In the event that a task is assigned to a member and they do not fulfill their commitment, there needs to be consequences. Consequences can range from a simple one-on-one conversation to being replaced on the leadership team. An alternative is to use an escalation system where the consequences become more serious as the number of offenses increases. The important aspect of such discipline is to ensure that the strategic plan implementation continues to progress towards the goals of the group.
Capital Asset Management

Background: The Need for and Sources of Capital

*The Medical Practice Management BOK* explains that capital budgets summarize the practice’s expectations for acquiring capital assets that have lives greater than one year such as land, equipment, and other fixed assets (103). Most practices do, or eventually will, need capital for various purposes; ten commons needs for capital practices typically include:

1. Growing and optimizing the existing practice
2. Adding physicians and practice sites
3. Investing in new profit centers
4. Adding next-generation facilities and equipment
5. Adding next-generation information systems
6. Developing single-specialty networks
7. Accepting and managing medical risks
8. Providing an exit strategy for older physicians
9. Covering cash flow shortages
10. Insulating against risk (109)

In his article *Financial Capital and Intellectual Capital in Physician Practice Management*, Robinson explains that physician organizations need capital for three reasons: unfunded liabilities, capital to finance growth, and investing in future operations (56). When referencing these three broad categories, it is important that understanding and promoting capital asset growth management is clear. Robinson also explains in another article *Capital Finance and Ownership Conversions in Health Care*, that there are different supply and demand investments for nonprofit organizations compared to for-profit firms (53). For example, emerging industries for nonprofit organizations include philanthropy, government grants, and organizational diversification while for-profit firms emerging industries are more venture capital and conglomerate diversification efforts.
(58). Mature industries for nonprofit organizations include tax-exempt earnings and bonds while for-profit firms focus on earnings and secondary offerings, such as stocks and bonds. By understanding how various firms and organizations invest in different avenues, it is clear that capital asset management can embody multiple forms and still provide opportunities for the investors. It is critically important that when determining how leadership would like to manage their capital assets, knowledgeable and experienced consultants sought out for advice for the organization to thrive in their given market.

**Capital Asset Management as an Extension of the Strategic Plan**

It is critically important to ensure that all members of the leadership team, physicians included, understand the direct relationship between capital asset management acting as an extension of the strategic plan. Because the strategic plan should focus on high-level goals and priorities, the capital assets associated with the organization must work to support that plan financially. In the event that conflict does arise, it is at this point where leadership should refer back to the agreed upon strategic plan’s goals.

Since strategic plans set goals and priorities for practices, the need for capital to meet those goals is required for success. For example, if an outpatient Obstetric and Gynecological (OB/GYN) practice with 26 physicians’ desire to offer a new service, such as three-dimensional mammography, requires capital to invest in new equipment as well as requires support from the technical staff, which would be significant in the early stages of investing. However, depending on the needs of the surrounding community, physician growth desires, and the projected revenue increases, the investment could be well worth it. It would be imperative that leadership understand the investment timeline, specifically
the time it will take to see a significant Return on Investment (ROI) along with any potential risks involved with the investment. By ensuring all affected parties are informed, they are prepared to review financial statements and any fluctuations in the practice’s financial bottom line and other relevant financial ratios. However, all considerations aside, the risk of not managing capital assets as an extension of the strategic plan can leave an organization with a plan but no means of achieving any established long-term goals.

**Key Factor #1: Capital Inventory Assessment**

The first step to allowing capital assets to act as an extension of the strategic plan is to understand current capital inventory through a systematic assessment. A healthcare organization may know that they need to expand services in a particular area, but, without a strategically developed inventory assessment plan to quantify current amounts, they are unable to meet their desired goals. For example, consider a 15-provider multispecialty physician practice set a strategic goal to replace a Magnetic Resonance Imaging (MRI) machine to update current technology and imaging. It would be best for management to not only review current MRI usage, but also for staff in the office to determine if the right support staff is in place to support upgrades. It is just as important to ask questions like, is the practice using the current MRI to full capacity or do the current MRI technicians have the appropriate certifications to operate the new equipment. In this case, it is important to review current equipment and staffing resources to accommodate stated goals. Another example would be if providers want to increase the amount of new patients they see each month. With this common request, it is important to evaluate aspects that influence current new patient appointments. In David Gans’ MGMA Connection article Cost-
Efficiency with Medical Group Staffing, he explained that with increased staffing levels, total medical revenue and net revenue minus expenses also increase (4). Therefore, although certain members may think adding new patient appointments is as easy as changing the physician schedule, there are actually multiple influences that lead to the scheduling restrictions. For this reason, it is essential that leadership have appropriate consultants or staff review current data, from workflow efficiency to financial statement reviews to ensure that the advice given is most beneficial. Many times capital assets assessment will need to involve lawyers, banks, and executive leadership, so leaders should ensure due diligence in assessing and accounting for current assets.

Baptist Health System is an example of a healthcare organization that put capital asset management at the forefront of their strategic planning efforts before opening two new service lines. To provide visibility into actual costs of maintaining equipment, they performed an annual data analytics process to understand technology assessment and real-time reporting to track how long every service lasted and how much it cost (Reilly, 74). They then used this data to create customized reliability scales to set annual capital-planning priorities.

Potential barriers to gathering current assessments could be scheduling conflicts and timely responses. As previously mentioned, when dealing with capital assets, many times lawyers, accountants, and executive leadership need to be involved, so it’s important that management pursue timely responses and ask for assistance when appropriate.
Key Factor #2: Review of Capital Utilization

The next step to strong capital asset management is to review previous and current utilization records. As stated above, data collection and tracking are invaluable resources the organization must invest in if they hope to grow or reach any future goals with capital assets. In his 2014 MGMA Connection article *Benchmarking 301: Advanced Practice Metrics Provide Actionable Insight*, David Gans explained that knowing the operating cost per total Relative Value Units (RVU) gives insight into a group’s production cost and, more importantly, knowing the total medical revenue after operating cost per total RVU provides insight into the operating margin for the group (3). His explanation of how total RVU’s per provider reveals so much more about a practice than just the value itself. Therefore, after determining which Key Performance Indicators (KPIs) an organization wants to review, it is important to collect and review data in a timely manner to see meaningful trends over time.

Another option to gather utilization activity for capital assets is through the incorporation of value-added services as part of leasing contracts. In the 2011 featured story *How to Optimize an Equipment Leasing Programs*, Ung and Zeinfeld explain that many lessons have developed sophisticated asset tracking systems for their internal use and for their customers (94). If during the strategic planning phases leadership decided to lease a new Computed Tomography (CT) machine, management can work a tracking system into contract negotiations to review utilization as needed and report updates back to executive leadership.
A potential roadblock to meaningful utilization review is executive leadership not finding time to review the gathered data appropriately. Each organization should expect to hit some type of roadblock and time goes on when implementing consistent capital asset management plans, but, as members start to notice barriers arising, it is their obligation to address it with the group.

**Key Factor #3: Planning for Future Asset Needs in Conjunction with the Strategic Plan**

In his 2017 MGMA Connection article *Designing the Practice of the Future*, David Gans explains that there are multiple factors that could impede an organization from reaching its full potential. However, healthcare leaders should know that requiring a long-term strategy to restructure their future organization to have the appropriate mix of staff, space, capital equipment, and information technology, investments are crucial (1). The key factors that Gans describes are important items to consider when planning to track and meet the established strategic goals of an organization. After the organization has made thorough assessments of their capital assets as well as reviewed utilization rates and applicable KPIs, the next step is to plan for future asset needs in conjunction with the strategic plan.

An example of a healthcare organization that appropriately reviewed their capital asset needs, accurately assessed, and planned for future needs is Aurora Health Care. In his 2015 article *Getting the Right Asset Mix*, Reilly described how Aurora worked with clinicians to drive out unnecessary costs by creating an equipment-lifecycle review plan and eventually saved the organization $16.9 million in capital within the first year of implementation (73). By creating a formal technology-planning process, leadership was
able to have productivity-driven conversations about how to best allocate equipment investments to meet the department’s true equipment needs. Aurora exemplifies the importance of identifying key trends to focus on and how to incorporate those trends when tracking progress as well as how to save the organization money through capital asset management.

Potential obstacles to overcome in this stage of capital asset management range from decreased leadership involvement to lack of consistency in data tracking and reporting. Therefore, in order to avoid these complications, it is critical to maintain the validity and presentation of the data being consistently presented. Another major area of focus that most healthcare organizations overlook in attempts to optimize capital assets are simple, yet critical staffing questions such as, what labor goes into managing new or upgraded equipment? What are the costs to the organization for each radiology technician? What impact might staff reductions have on the overall plan (Reilly, 76)? Although these questions seem simple, they have the ability to influence the organizations ability to meet their strategic goals and should be discussed before moving forward.

Interviews with Healthcare Industry Leaders

In order to build a wholesome picture of capital asset management and gain insight from real-life experiences, one-on-one interviews were conducted with healthcare industry leaders in July of 2017. Identification of healthcare industry leaders was based on their previous experience with capital asset management and diverse professional experiences. All respondents agreed to the interview and consented to providing their
names for the purposes of this paper. Interview questions focused on the need of identifying important factors that contribute to successful capital asset management to compare with results found in the literature. Interviews took place in respondents’ offices and lasted for about thirty minutes and common themes were identified from the standardized questions. Interviews took place with the following healthcare leaders:

1. Brad Rogers, Vice President, (Specialty: Internal Medicine), Lexington Medical Center
2. Emily Blayton, Vice President, (Specialty: Neurosurgery and Orthopaedics), Lexington Medical Center
3. Paul Athey, Assistant Vice President of Physician Network Administration, Lexington Medical Center
4. Vicki Bush, Division Administrator (Specialty: Medical Center Hospitalists), Lexington Medical Center

Considering the small number of respondents, common themes were identified by simply reading and evaluating the answers and no software was used for this analysis.

The first question focused on working with managers and physician leadership to organize and drive strong strategic plan development. The respondents all emphasized on the need for collaboration and including stakeholders for leadership positions in order to begin discussion on developing the strategic plan. Not only did the respondents emphasize on the importance of including all necessary parties but also emphasized on the importance of establishing a formal, executive board. The executive board will gather that insight from all stakeholders in order to guarantee that the needs of all parties’ are represented and addressed appropriately. They also described the importance of gathering insight from stakeholders to ensure appropriate representation of all parties and encourage leadership engagement. The common theme of inclusivity emphasizes the importance of evaluating the current strategic plan to determine appropriate assignment
to leaders based on responsibilities in which they report on a regular basis. One respondent suggested beginning each meeting with updates and feedback from previous meetings. By encouraging management to provide updates, it focuses leadership and management on the goals of the strategic plan.

The next question: “what would you consider the top three factors to consider when planning for and managing capital assets?” revealed a variety of responses, that could be grouped into three broad themes: return on investments, appropriate needs assessments, and understanding future incentives.

The first theme among respondents in response to this question about determining if an investment is worthwhile was determining if the community or patients directly benefits from the investment. I was impressed by respondents identifying patient-centered factors as incentives for determining whether the investment was worth it and how critical each respondent thought it was to the mission and vision of the organization. For example, one respondent said, “we would want to ask the question if this benefits the patient and if those benefits outweigh the financial risks”.

The second response theme described from this question, appropriate needs assessment, focused on gathering as much information as possible before making concrete action focused decisions. One respondent gave an example of changing medical office suites as a result of increased patient volume and additional physicians. Before changing and adding more building space, one metric they carefully assessed was current demands verses projected population increases in our area. They explained that it is
important to quantify need before investing large amounts of capital in renovations and expansions.

The final response theme for this question, understanding future incentives, builds on the second theme and is centered on the ever-changing healthcare regulations and programs. One respondent said, “You have to understand how future demands will impact current capacity models and then plan appropriately.” When working in a dynamic market such as healthcare, it is important that executive leadership look for growth and revenue opportunities that their organization can benefit from in the future to maximize their capital assets.

The next question centered on experiences with organizations that have not managed their capital assets well. Most respondents have worked for organizations that have not planned their capital assets; only one respondent had this experience. The respondent who worked with an organization that had not planned their capital assets described the experience as challenging since individual departments did the strategic planning separately instead of centrally. The problem with this approach is that the departments do not benefit from the same level of expertise that the organization offers collectively. The respondent continued to explain that in his organization at the time, the consequence of not uniting decisions and ideas in his organization was that the capital purchased only benefited selected departments rather than the entire organization. This experience shows the importance of initially forming an executive leadership team that ultimately makes decisions and priorities for the organization as a whole.
The final question focused on defining which steps to take and obstacles to cover when implementing a new service line or capital investment. Every respondent said that the executive board commitment is critical to maintaining consistency and focused efforts. They also said that physician recruitment is one of the most challenging but critical aspects to the success of implementing a new service line. It typically takes between 12-18 months to recruit a physician in certain cases, so it is important to take care when confirming the organization knows exactly what it is looking for when recruiting. This is to ensure that the organization finds an appropriate physician for the position. One potential barrier that was remarkable from one of the respondents was that there is typically a fear of internal competition when introducing a new service line or investment. Therefore, when implementing a new service line, current departments must understand how it will be different and beneficial to new additional services. With this fear, it is important for leadership to refer back to the strategic plan to push forward and communicate appropriately with others.

Overall, the interviews with the healthcare executives served as personal testimonies to support the research conducted in pursuit of understanding strong capital asset management. In describing personal experiences establishing executive boards, successes and failures in gaining leadership consensus, and practical options for maintaining accountability throughout the implementation of the strategic plan, they brought in-depth meaning of leadership development and how to drive strategic plan engagement. Despite what is taught in a Master’s program or online literature, nothing is as valuable as understanding real-life experiences from healthcare professionals to understand the reality of strengths and weaknesses to capital asset management.
Conclusion

This exploratory paper provides an explanation of key factors involved in developing an organizational strategic plan and the importance of maintaining that plan. From building management consensus to assigning appropriate responsibility and maintaining the strategic plan, all aspects in-between are critically important to the successful implementation of the strategic plan. This paper details and expands the broad definition of capital asset management and elucidates the need for various sources of capital as well as management options for various healthcare organizations to control their capital assets. It is clear that if a strong strategic plan is developed and appropriately maintained, there will be a natural alignment and development of the key factors described, including inventory assessment, the review of capital utilization, and planning for future needs. Time spent with each of the healthcare executives supported conclusions found in online research and revealed resounding themes on how to build executive boards, gain consensus, encourage stakeholder engagement, and maintain accountability throughout the implementation of the strategic plan. By identifying and expanding on potential barriers associated with each key factor, healthcare leaders can play roles that are more active in the successful implementation of the strategic plan and manage capital assets.
Bibliography


MGMA-ACMPE Fellowship Survey

1. How do you work with managers and physician leadership to develop their strategic plans?
   a. How do you evaluate an organization/practice’s strategic plan?
   b. How do you judge a “good” strategic plan?
   c. How do you encourage practice leadership to continuously refer back to their strategic plan?

2. What would you consider the top three factors to consider when planning for and managing capital assets?
   a. What makes an investment “worth it”?
   b. Example/Explanation as to why each factor is so important

3. Have you ever worked for an organization that did not plan for/manage their capital assets well?
   a. What was the outcome?
   b. How did the organization recover?
   c. What lessons did you learn from this experience?

4. What steps associated with investing in a new service line/investment?
   a. How long does each step take?
   b. What are the most common barriers you encounter in the process?
      i. How do you overcome them in order to move forward?
   c. What is the most recent investment your group(s) has made?

5. Practice/Network specialty ________________________

6. Geographic region ________________________

7. Number of physicians ________________________

8. Physician or hospital/health system-owned? ________________________

9. Number of employees ________________________