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> "Budgets are a key staple of proper financial controls used by CFOs on a regular basis. They have their undeniable place as part of a sound governance model. However, budgets and benchmarks also create significant losses if not utilized with caution and trepidation."
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> *- Mischa Dick*

3 Reasons Why Revenue Cycle Budgets Create Big Losses

1 Budgets miss half the picture and therefore threaten P&L

Budgets are typically determined using the previous budget, and then making adjustments given various business factors. It is an exercise designed to answer the questions: "How much will it cost me to do something", and "How much can I afford on this activity". This exercise creates limiting parameters to make that number fit an overall financial objective. For revenue cycles, the truly critical question that is often not asked is: "How much does it cost to not do something". Let's expand. Many revenue cycles are under-resourced to achieve optimal cash receipts associated with earned revenue. Budgets look at the cost side of the equation, and follow the inertia of historic budgets. They miss the fact that additional, carefully selected, and appropriate resourcing- be it technology, staff, or re-organization, can unlock additional cash well beyond the required spend, and do so on a very short timeline; most certainly within the budget cycle itself. The key to solving this dilemma: Create a precise quantification of the remaining opportunity in addition to a reliable, cost effective method to capture it quickly, reliably, and sustainably.

2 Budgets are static in a highly dynamic, rapidly changing world

Typically, budgets are set once per year, and lock in spending for the entire duration. In reality, opportunities and risks pop up during the 'lock down cycle', and strict adherence to budgets will create a substantial financial downside and losses on new opportunities. Therefore a better approach is to live within budgetary constraints- unless strategic opportunities or rapid positive cash flow projects become available during the year, which should go through a parallel decision process. The key to solving this issue: Create a clear definition of the conditions under which the 'parallel' budget is enacted, and a reliable mechanism to capture identified opportunities.

3 Budgets kill business literacy

Budgets, by their nature, are cost centric. They isolate revenues from costs, and therefore do not drive the organization to develop sound P&L thinking, and the associated business literacy. All too often the focus becomes strict budgetary adherence as a success measure, rather than solid decision making for the benefit of the overall organization with a keen eye on profitability. While there may be simultaneous cash goals, these are highly dependent on generated revenues, thus even their existence does not create any kind of P&L accountability. To make matters worse, once entrenched in budgetary thinking- given the trajectory of next year's budget being anchored in this year's, there becomes a tendency to use up the budget even if the funds could be put to better use in other areas of the business. The key to solving this problem: Implement organizational design to enable management to P&L when possible. In revenue cycles, this can mean establishing the revenue cycle as a wholly owned vendor. With commission and performance based re-imbursement for services, and the profits flowing back to the parent organization (to be distributed to the members in a hospital provider system). This approach allows for the Revenue Cycle to create resource allocations to generate the maximum cash from earned revenues for the provider organization. It also turns the revenue cycle from a fixed cost line item to a variable cost line item with costs varying in accordance with volume. Making this approach successful requires a carefully crafted transfer pricing agreement, in combination with revenue cycle leadership that has skills far beyond that of budgetary management.