One significant impact a healthcare leader can have is taking control of his/her organization’s capital allocation process. Given that various constituencies are always lobbying for dollars, it can be a grueling exercise. The best practices listed below are not in priority order; however, success does depend on addressing all 10 items.

1. The capital allocation process should be led proactively by the executive team. The chief strategic officer (“CSO”) and chief financial officer (“CFO”) should jointly design the work steps for both the process and its execution, and the executive team and Board must understand and endorse the joint approach.

2. There should be a single point of leadership, either the CSO or CFO, depending on their relationship with the rest of senior management and the Board. Their prime responsibility should be to assemble the best decision-making team (“Allocation Committee” or the “Committee”).

3. The Allocation Committee should be multi-disciplinary in nature and reflect the perspective of finance, strategy, operations, and the charitable foundation, if any. The role of key constituents should be defined prior to commencing the process. Physicians should be invited to identify projects, and consulted in refining project profiles. Selected members of the executive team may be invited to participate on the Committee (such as the Chief Operating Officer, Vice President of Patient Care Services, and Chief Medical Officer).

4. Decisions regarding which projects are considered and the amount of investment approved should be consistent with the organization’s vision and strategic goals. An effective organization will limit its focus to three to five goals annually, and generally no more than a few major capital projects with a longer-term horizon. Projects not consistent with these parameters should be culled in the early stages of a planning cycle.

5. A well-defined and rigorous approach to the allocation methodology should be established. Five broad components should be included:
   • The specific basis for analyzing each proposed capital project and guidelines for presenting a “business case” to support the project
   • Orientation to considering projects simultaneously as a portfolio of alternatives
   • Criteria for evaluating the projects individually and comparatively
   • A method for “scoring” and prioritizing projects
   • Provisions for handling requests for project funding outside the customary decision cycle
6. Incorporate the following in the evaluation of potential capital projects:

- Description of the project
- Total investment required and the timing for fund allocation
- The proposed project’s link to the strategic plan
- Consistency of market characteristics with the project
- Supplemental benefits of the project
- Incremental revenue and expenses specific to the proposed project
- Project-related projected earnings before interest, depreciation, taxes, and amortization (EBIDTA)
- Identification of risk factors, likelihood of their occurrence, and potential impact
- Extent to which the project would directly and indirectly affect operations
- Timeframe for completion
- Information specific to each of the criteria that will be used in the prioritization process (see Best Practice #7)

7. The process of prioritizing projects should incorporate both qualitative and quantitative criteria. The CSO and CFO should develop a list of evaluative criteria that would be consistently applied to each project. The criteria should be discussed and modified with the key constituents (Finance Committee of the Board, executive management team, Allocation Committee members), and their “buy-in” should be obtained. This will substantially reduce subjectivity in decisions.

8. Regardless of approach, the prioritizing process must be proactively “refereed.” The following guidelines improve facilitation:

- In any given year, the membership of the Allocation Committee must remain consistent throughout the evaluation and prioritization steps.
- The quantitative process used for “scoring” each project’s priority (e.g., weights and values) should be established before the evaluation and prioritization process begins. Allow for one to two “test” applications to fine-tune the process (criteria, values, etc.) Retroactive adjustments should not be allowed.
- High-level executives must suspend their unilateral decision-making authority. Instead, they should participate as members of the Allocation Committee.
- Use a neutral facilitator.
- Establish a mode for discussion and debate, within limits.
- The executive team must make final decisions but should generally follow the prioritization developed by the Allocation Committee.
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9. A fixed calendar should be established with the capital allocation cycle beginning the same time each year. The entire process should be completed within three months, with some flexibility to account for any significant strategic shifts that may occur.

10. Best Practice # 10: The CSO and CFO should proactively share information with the members of the Board, management team, medical staff, and mid-level managers, to support buy-in and outcome of the funding decisions.

The capital allocation process can prove disastrous if weighted with politics and miscommunication. Instead, it should be a collaborative effort, overseen by the CEO and CSO (or CFO) working jointly. Annual goals should be limited and accompanied by strict timetables, and buy-in should be solicited from the Board and the Allocation Committee.

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