

Healthcare's New Change-Maker: The CFO

The role of hospital chief financial officer has changed dramatically over the last 50 years. No longer simply responsible for managing the hospital's finances, today's CFO is a change agent, an indispensable member of the leadership team helping chart his or her organization's long-term success. This white paper examines how the role of hospital CFO has evolved, some ways in which CFOs act as change agents, and how CFOs can draw on their financial expertise and leadership skills to become change-makers in their organizations.

THE RISE OF THE STRATEGIC CFO

Today's hospital CFO would have trouble recognizing his or her counterpart from 50 years ago. Back then, the CFO position was largely reactive in nature. A fee-for-service reimbursement structure meant that hospitals could predict their revenue simply by calculating the number of services delivered. As a result, the CFO's task was essentially just to keep score. There was little expectation that CFOs would go beyond the bounds of their department to play a role in steering the direction of the hospital.

However, starting in the 1990s, and in particular since the early 2000s, the CFO's mandate has undergone a complete transformation. Today's CFOs are "strategic CFOs." Their management responsibilities now extend in all directions—up to the CEO and the board, down to specific departments and operations teams, and sideways to physicians. In fact, understanding the needs of physicians and how they work is as critical as any interaction a CFO has with the CEO and COO.

Moreover, many CFOs today also forge external relationships—for example, with third-party payers (including self-insured companies), physician/hospital joint ventures, and information technology vendors—to help advance the goals of their own organization. CFOs are even affecting the broader healthcare market by taking strategic steps such as reducing non-performing assets, financing new ambulatory facilities, and negotiating ACO relationships with physician clinics and other hospital partners and insurers.

The qualifications for the CFO role have changed as well. Today's CFO is now first and foremost an executive, a leader more likely to manage accountants than be an accountant. He or she must possess the interpersonal skills to work with every member of the leadership team as well as managers and staff throughout the organization. To an extent unimaginable five decades ago, the CFO's ability to inspire, educate, and motivate is central to his or her effectiveness.

Above all, today's CFO is expected to be a change agent—a thinker and communicator who can identify opportunities for growth, engage the leadership team, staff, patients and

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community in the changes that need to happen, and keep management on the right path. It's a role that demands great strategic vision coupled with detailed tactical oversight, as much about ordering the right number of tongue depressors as it is tracking broad economic trends in healthcare delivery. Not surprisingly, it's a difficult role to fill.

Let's look at some ways a strategic CFO can take action to effect change.

THE STRATEGIC CFO AS CHANGE AGENT

What does it mean to be a change agent? A strategic CFO is faced with this question every day. Below we discuss four examples of how CFOs can drive change within their organizations.

Risk management. Managing risk is one of the CFO's primary responsibilities. As the hospital's recognized expert on healthcare economics, the CFO exerts tremendous influence on the leadership's approach to risk-taking. He or she must find a middle ground—protecting the hospital's interests when making financial decisions, without being so risk-averse that the hospital falls behind others in using innovative means to generate revenue and control costs.

Risk is particularly evident in the changing paradigm of hospital reimbursements. Until recently, the fee-for-service model allowed hospitals to create more revenue simply by delivering more services. Increasingly, however, hospitals are being paid a flat rate per patient, which in effect transfers patient risk from the insurance company to the hospital. This so-called pay-per-value model is intended to cover not only the cost of care in the hospital, but additional costs such as pharmaceuticals and post-discharge care. Medicare reimbursement is now moving in the direction of pay-per-value, and private insurers are sure to follow.

The problem is that many hospitals aren't yet in a position to manage their costs against a fixed payment. It's a serious issue: if hospitals can't deliver services at lower cost, they can't keep their doors open. This reality presents CFOs with a critical challenge—how to ensure that the hospital can provide high-quality care at lower cost. In response, CFOs need to identify areas for cost-cutting, forecast the savings through financial modeling, and come up with a game plan to realize those savings. Using their communication skills, CFOs must then sell the plan to senior leadership. Finally, if the plan is approved, the CFO, with other leaders, must explain the changes to all the stakeholders who may feel the impact, from staff to patients to members of the community.

In short, the transition to pay-per-value is a profound shift for the healthcare industry—but also a significant opportunity for hospital CFOs to demonstrate their strengths as a change leader.

Allocation of resources. The CFO's influence as a change-maker is especially visible when it comes to creating budgets and long-term financial plans. By deciding which department gets what—or whether departments will continue to exist at all—the CFO, working closely with the senior leadership team, helps determine the future shape of the organization. Of

How CFOs Act as Change Agents

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Gainsharing

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course, making these choices can be difficult and emotionally fraught, testing all of a CFO's financial and leadership skills. But done right, the resource allocation process allows the hospital to run more efficiently, reduce costs and better serve patients.

Allocation decisions could include whether to:

- Continue expanding hospital services
- Discontinue current services
- Expand physician services
- Create an ambulatory business in the pharmacy, physical therapy department or lab
- Launch a health plan

Whatever decisions are made, the CFO needs to understand their economic impact over the short as well as long term. At the same, the CFO should gauge to what extent the changes will alter the hospital's strategic goals, and ensure the hospital is prepared to go in new directions if necessary.

Financial reporting. How a CFO frames his or her financial reporting has significant impact on how senior leaders determine the value of a particular service or department. The more profitable and effective the area, the higher its perceived value and the more likely it will gain further resources and attention.

An example of this practice might look something like the following. Say that a hospital's spend for drug supply was significantly over budget. The additional expenses were driven by higher sales in the ambulatory pharmacy business—good news, as the strong sales added revenue and increased profitability. However, if the financial report indicates that the cost of supplies was a drag on the budget, it could raise questions as to whether an in-hospital pharmacy makes sense. Instead, by focusing on how the pharmacy sales led to an increase in gross margin after the cost of goods sold, the CFO could strengthen the case for keeping, or even expanding, the pharmacy operations.

By spotlighting certain financial outcomes in this way, a CFO has the power to manage the organizational dialogue about what is and isn't important, and as a result affect larger strategic questions about how the hospital should grow.

Gainsharing. Hospitals and health plans can benefit from gainsharing arrangements with each other. In this model, the hospital works to lower both the cost and utilization of services—for example, by changing the hospital admissions process, using different diagnostic techniques, or discharging patients sooner. As costs decline, the health plan begins to see savings, a portion of which it then returns to the hospital.

At this point the hospital will have to decide how to distribute the gains within the organization—an often complicated task. For example, if a hospital's admissions have declined, is it because the hospital has changed its policies, or because doctors have changed their treatment practices? Should the hospital or the physicians department receive the gain? Whichever department receives the gains, it will show higher profitability versus other

departments receiving no allocation. Inevitably, the variation in profitability will create a perception that one group is performing better than another.

The CFO is responsible for answering these tough questions. With the ability to allocate gains, he or she has the power to highlight specific departments and point resources toward those groups seen to be doing well. It's one more example of how the CFO can play a pivotal role in shaping a hospital's future.

BECOMING A CHANGE AGENT: WHAT CFOs NEED TO KNOW

As the role of the strategic CFO grows in significance, it's never been more important for current and aspiring CFOs to know what they can do to become change agents, or more effective change agents, themselves. Here are some key tips:

Partner with the CEO and other senior leaders in developing strategies for better delivery of services at lower cost. This is the most important action the CFO can take.

Develop advanced communication skills to explain complex financial concepts and ideas to non-financial people, at all levels of the organization, without being condescending.

Educate the management team on core aspects of finance so that everyone understands and is focusing on the hospital's economic viability.

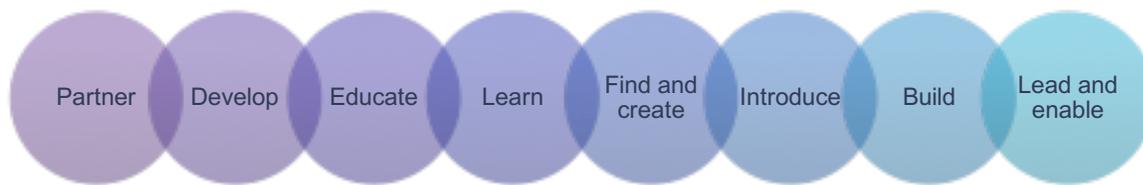
Learn something new that will help the organization improve—a physician's perspective on care and delivery, how to interpret health insurance companies' financial statements, new methods of financing, population health and its financial ramifications, to name a few examples.

Find and create innovative means of accessing capital within the economic realities of the organization. Be a "hero" to the organization by making something happen that advances the hospital's long-term goals.

Introduce investors to the executive team and board of directors. Emphasize the strength of the management team in explaining why the hospital is a sound investment.

Build relationships with other CFOs at competing health systems to trade non-economic ideas and strategies—for example, what to do in case of an IRS audit—and collaborate where possible, such as with the creation of joint community benefit plans.

Lead and enable managers and staff to understand the organization's strategic goals and work together to achieve them.



Michael O'Brien, an authority on executive healthcare-industry leadership, offers additional insights on being an effective, change-making CFO. For example:

- CFOs should embrace their role as a change leader, study the psychology behind how people handle change, develop the skills to facilitate change, and also model change for others to follow.
- There's always the potential for upset when CFOs implement changes. But what people hate more is being *between* changes. A CFO must be able to sense when the pace of reform is too fast, but also too slow, and adjust accordingly.
- The CFO is both a manager and leader, responsible for running day-to-day operations as well as rallying the organization behind a vision for the future. In order to cover both duties CFOs will need to allocate and prioritize their time with care.
- Building teams with the right people "on the bus" is essential for high-functioning organizations. CFOs should consider competence when evaluating potential team members, but drive, attitude and the ability to handle stress are also key factors.

CFOs should embrace their role as a change leader.

Taking on the position of CFO at a major healthcare system is a daunting prospect, especially given how much is expected of today's strategic CFO. With these and other suggestions, however, CFOs can become change-makers more quickly, and with less stress, than navigating the role on their own.

CONCLUSION

While the hospital CFO of 50 years ago may have been siloed in the finance department, today's strategic CFO is a driving force for change across the organization. What's more, his or her influence now extends beyond the organization to the broader healthcare market. How well the CFO performs in this role is not just about financial acumen, but leadership ability—the ability to bring together and inspire the entire organization to reach shared goals. Fortunately, these leadership skills can be learned. As more CFOs become change-makers, the next 50 years in healthcare promise to be very exciting indeed.

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