



## **Healthcare CFOs: An Evolving Role in a Changing Marketplace**

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*A Note to Readers: As healthcare organizations continue to undergo enormous change, so, too, has the role of the CFO. This article seeks to describe the nature of this change and to offer insight regarding the issues and challenges that are relevant primarily to CFOs, but should be understood by all finance professionals who plan to develop their careers within this dynamic industry. In the current war for talent, organizations are looking for talented CFOs with the proven leadership capabilities and track records of contributing to their employer's strategic objectives. This article reveals the ways in which CFOs can differentiate themselves based on the ability to lead and manage in connection with established strategic goals.*

### **The New CFO Role**

We are now in a knowledge-driven marketplace where brainpower is the key resource for most businesses, most notably healthcare. In healthcare, the organizational winners are those that select individuals with considerable brainpower and subsequently apply that talent in the most creative ways. Recruiting and selecting such talented professionals is a crucial strategic issue and is a primary objective of healthcare organizations today.

While the objectives and requirements of healthcare organizations are changing, many veteran CFOs and finance professionals are feeling the pressure associated with this change. Roles that were once clear and defined are now changing and expanding, and many of you are asking, "How do I become a more effective contributor? What new skills do I need to position myself in this changing role and evolving industry?" Some of you are even asking, "Should I leave healthcare?"

So where do you, as CFOs, see yourselves in today's knowledge-driven marketplace and emerging healthcare organizations?

First, your fundamental role continues to change. Just a few years ago, your role primarily revolved around managing a relatively large number of employees who collected and analyzed data for both cost containment and reimbursement maximization. Now, as a result of market forces and Medicare cuts associated with the Balance Budget Act, you are called upon to make business decisions regarding mergers and/or divestitures as well as the continuation of programs.

The new organizational realities demand that you assume a very different role. In the old model, finance had significant influence over operational issues. Finance is now called upon to assist operations in creating and delivering the value demanded by a very dynamic marketplace. This change moves you from a strictly financially driven focus to more of a business consultant role supporting operational initiatives. Your role as the CFO has expanded to include management oversight of non-financial functions in your organization, such as medical records, materials management, facilities, security, telecommunication, environmental services and human resources. Are you becoming the COO?

Second, this significant change in circumstance leaves you facing three conundrums:

The first is helping operations respond in a financially viable way to the quickly changing demands of the marketplace -- a marketplace that keeps asking for new, different, and better services at lower costs.

The second is figuring out how to maintain consistent and sufficient cash flow in the face of the constantly changing payment formulas put forth by the government, insurance companies, and HMOs.

The third, and perhaps the hardest part for you, is keeping these two dynamic forces in alignment. Too often, the way your organization is paid is out of sync with the services demanded by the marketplace.

There is a shift from the scorekeeper duties of the old economy to the identification of solutions in the new economy. This shift is manifested in several ways:

<b>Emphasis Before</b>	<b>Emphasis Now</b>	
<i>Data Manager</i> - Managed accounting departments which collected, manipulated, calculated, analyzed, reported and stored financial and statistical data for internal and external reporting.	<i>Business Analyst</i> - The same tasks, but handled by fewer people and with more sophisticated technology. The emphasis is on analyzing the data to support departments so they can make informed decisions and maximize margins within payer-defined pricing.	Finance must develop a reliable decision support system to provide information, such as product profitability, which has not been readily available in the traditional transaction-based systems.
<i>Budget-driven Controller</i> - The budget process was the principal means of exercising control. Budgets were viewed from an historical perspective.	<i>Business Consultant</i> - Finance uses tools such as break-even analysis to help operations answer the question, "How can we meet the demands of the marketplace in a financially viable way?"	Finance must assist clinical department managers in evaluating new programs and services, such as dialysis or occupational health, which will create new profit centers for the institution.
<i>Internal Focus</i> - Since the organization dominated the	<i>External Focus</i> - Every effort of healthcare organizations is	Finance must serve as an educator to clinical department managers

<p>market, the focus was on performing services in a low-risk, highly predictable way. Finance kept the organization in careful check. Financial tools, such as standard costing, were finance driven.</p>	<p>directed towards giving customers what they want and need at a price they are willing to pay. Finance must help operations take prudent risks and create dynamic, market-responsive services. Financial tools, such as activity based costing, are operations driven.</p>	<p>to help them understand the concepts of incremental revenue and incremental costs and the resulting contribution margins. The CFO is now called upon to evaluate the acquisition of a financially distressed community provider such as a freestanding Mental Health Center or a Home Health Organization. This is necessary in order to continue the operations of a vital community service, which requires the development of a sound business plan and identification of capital needs/resources.</p>
<p><i>Financial Department Manager</i> - People were grouped by common tasks into functional areas that operated independently. Finance reviewed variances by each department and operated from a fixed budget approach.</p>	<p><i>Collaborative Leader</i> - Departments now work inter-dependently to maximize the organization's ability to create marketplace value. CFOs work externally to create good inter-organizational relationships with payers, providers and suppliers. CFOs work internally to improve the operational infrastructure and find the resources to support critical operational initiatives while protecting the assets of the organization.</p>	<p>The "integrated system of care" concept often puts the CFO at the center of decision-making when evaluating and negotiating acquisitions and/or divestitures.</p>

What hasn't changed is that you still have the fiduciary responsibilities for protecting the assets of your organization. You must do this within the constraints of the reimbursement systems imposed upon your organization without compromising its ability to provide excellent services that are market-responsive. As such, you probably find yourself in the paradoxical roles of:

- Being a police officer..... While being everyone's pal*
- Being an individual contributor..... While also being a team player*
- Being task-oriented..... With strong relationship building skills*
- Being predictable..... Yet responding dynamically*
- Being an historian..... Yet planning for the future*
- Having accounting knowledge..... Applied to clinical outcomes*
- Being a data gatherer..... While maintaining a systems view*

While the finance department is responsible for both sides of the chart above, your focus is increasingly on the right hand side.

### **The New CFO Skill Set: What it Takes to Succeed as the New CFO**

The changing nature of healthcare and the resulting paradox in which you find yourself are inescapable. So, as the CFO, you must prepare yourself to meet all of the demands that are currently being placed upon you. You need to take an inventory of your current abilities and objectively compare them to the expertise you will need to move forward.

There are three areas in which you need a high level of knowledge to be an effective CFO because, in the new organizational reality, you are:

- *Part business analyst.* As such, you still need accounting/finance knowledge.
- *Part COO.* Your changing role requires a comprehensive understanding of the healthcare industry, not only from a financial perspective, but now also from an operational viewpoint. The familiar quote, "No margin, no mission and no mission, no margin," defines the hard reality of what you are facing.
- *Part lawyer.* Negotiating and reviewing provider and supplier contracts, dealing with the buying and selling of assets, working with financing issues, etc., necessitates a high level of legal knowledge.

As an entrepreneurial CFO, you need two primary skills to maximize your abilities in the new economy.

The first skill involves critical thinking: the ability to sort through limited data quickly and determine its true importance; the power to obtain and maintain a long-term perspective; and the capacity to utilize "out-of-the-box," creative thinking. CFOs must now be able to examine data from an opportunity perspective and not just from a bottom-line point of view. This means that finance cannot continue to only look backwards at an historically based budget and increase the coming year's budget by 5% to reflect the Consumer Price Index.

Now, a CFO must read the marketplace and work with the value creators--the service providers--in the healthcare organization to explore trends and re-tool operations to meet the needs of a fickle marketplace. Your organization may even need to consider taking a financial risk in developing a service delivery area in anticipation of it providing access to a new, profitable market going forward.

The second primary skill is the ability to create and work within collaborative relationships both inside and outside of the organization. Departmental staffs no longer work independently, isolated from other departments. Their responsibilities often call for them to work cross-functionally and collaboratively, integrating and supporting each other's work.

Internally, in the new environs of healthcare, a CFO is frequently called upon to pull together multiple entities within the organization and assign them responsibilities that are interdependent. Therefore, if issues arise which need to be arbitrated, CFOs must have well-developed conflict

resolution skills in order to create mutually beneficial relationships. Resolving issues in a manner in which everyone wins is the key to creating long-term, productive relationships within the healthcare setting.

Externally, you must pull together some semblance of a unified, effective whole with the entities within your organization's control and on whom it depends to fulfill its mission, i.e., payers, doctors, suppliers and other service providers. Meanwhile, you must still maintain fiscal health.

### **To Summarize**

Healthcare organizations are looking for and rewarding those individuals with the brainpower and evolving skill sets necessary for the new CFO role of part business analyst, part COO, and part lawyer. For those with a talent for critical analysis as well as the ability to build collaborative relationships, the new environment in healthcare will be challenging and rewarding. Embracing these parameters for a successful career will allow CFOs to play a leading role in making healthcare organizations both market-responsive and fiscally sound.

### **About Dan Phillips**

As a principal of Phillips DiPisa, Dan Phillips conducts executive leadership searches for the firm's healthcare clients. Before launching Phillips DiPisa, Dan held financial leadership positions at St. Elizabeth's Medical Center and Franciscan Children's Hospital, both in Boston. His strong track record of building long-term relationships demonstrates the trust clients place in him.

### **About Bruce Mast**

Bruce Mast has decades of experience in leadership and organizational development, executive coaching, and strategic search and staffing issues. Bruce focuses on developing effective learning that has had a profound impact on both individuals and organizations throughout the Northeast. He is a sought-after speaker addressing business and professional groups and organizations throughout the country.

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