

Am I a Strategic CFO?

By Paul Perrotti

The balance sheet: Who is better suited to interpret the financial resources of an organization? I know I started with rating agency data. Medians for important indicators. Days cash on hand, leverage ratios, margin percentages, all are very basic nonetheless extremely important. What is organizational sustainability?

Before we dig into strategy, we must understand our starting point. Every dollar of EBIDA creates how much borrowing power? How much borrowing power do we have?

The CFO is positioned well to paint the path to the future, knowing the current state, and setting the targets for the future is the first step. Understanding how to get to the future state is “strategy”.

One Dynamic: I bumped into a former coworker this week, and we had an entertaining chat about strategy. He reminded me of a tipping point we experienced at a health system we both worked with. Every year the system would engage a consulting firm to perform strategy. The engagement typically focused on market share, it largely used publicly available information.

The “**weather report**” (as we called it) compared previous year’s individual service lines market share to the current performance. The graphs were interesting. None of the information represented intentional moves by the organization, we were an organic “blob”, getting improvements from market dynamics.

Connecting the financial impact. What we learned quickly was there needed to be a connection between volumes and returns. The big question revolved around market share or market growth. Rural hospitals traditionally are not challenged by market share, there is not heavy competition on every corner, and the service areas are largely underserved. How does a CFO help convince the team to discuss market growth?

At the time the health system did not employ physicians, the system used income guarantee incentives to recruit physicians to the area, but these incentives were dependent upon market share focused physicians to recruit additional specialists/primary care. It required a large amount of dialogue with stakeholders, and not all agreed. The strategy was broken.

Looking upstream was key to better understanding the drivers of volumes. The physician landscape indicated a weak volume of specialists in almost every discipline, and a less than adequate primary care network to refer patients in need to the desired specialists.

One solution. The strategic CFO needs a curiosity of how-to best bend results without breaking branches of collaboration. What should volumes be? Typical Cath lab procedures ran about 40 per month, the team could prove that this number was stable, rarely moved. I remember thinking, I saw 40 patients today at Wal-Mart, something is broken. Triangulating all these random data points, understanding volume dependencies, synthesizing the information into a plan, requires a curious mind.

In six sigma we are trained to start with a hypothesis and prove it correct or prove it wrong. I could not prove that adding an interventional cardiologist to our system to be wrong. It was the right thing to do for the community, for our system, and for physicians who struggled to get their patients appointments with the current panel of interventional cardiologists.

The story is much longer and much bigger (almost 100 physicians bigger), but we recruited and hired an interventional cardiologist, and yes, he reported to me as the CFO. We rented office space, support services, and luckily got everything up and running from an administrative standpoint. Volumes doubled, there were no displaced market share issues with the existing physicians, it was pure market growth that set the basis for replication in other specialties. The Cardiologist is still very successful, nearly 15 years later, and a very dear friend.

The strategic CFO's biggest attribute should be curiosity. What effects outputs? How do we control the inputs, whether it is screenings with home testing such as Cologuard, or an entire sweeping approach to a physician recruitment and employment strategy? The strategic CFO combines art with science. Taking a picture is pure science involving shutter speed and aperture. Taking a meaningful and beautiful picture requires a subject and often artistic curiosity.

As years passed, my previous experience allowed me to ask better questions. I engaged better firms to assist in strategy; and one included an epidemiology expert. Asking questions relating to demographics and epidemiology are essential. For a population of 100,000, how many people will require cardiovascular intervention? How do we best treat our community to avoid catastrophic outcomes? This provided a foundation for estimating volumes and related financial performance for new centers (heart, cancer, outreach). I am thankful for the people I have met during this process; I still maintain contact with them, and we often bounce ideas off each other.

I believe the CFO who asks the curious questions, is then best suited to evaluate the business case, after all; they are the CFO.

Go ahead and start, ask questions about the weather report, have the confidence to look a bit foolish, you never know who else was thinking the same thing. Swimming upstream makes you and your organization stronger, not to mention more sustainable to better address community needs.

We are all here to make the world a better place for our patients, our community, and our caregivers to practice medicine.