

## **The Fiscal Dilemma: Staying Out of the Cross Hairs**

Since the mid-1990s reengineering phenomenon, providers have focused on “right sizing” and operating with minimum staffing levels as one of their primary forms of cost control. As a result of this focus, the need to monitor staffing and productivity has become a major priority for the entire Executive Team. **Can the same thing be said when it comes to all non-payroll expenditures?** With rapid advancements in all forms of technology (pharmaceutical, IT, diagnostic and treatment devices, etc.) and the corresponding exorbitant prices for the implantable products and pharmaceuticals utilized in today’s sophisticated procedures, forecasting and controlling all non-payroll expenditures has become a nearly impossible task. In the past, as challenges arose, traditional approaches for maximizing reimbursement to offset cost pressures had been successful. Today, however, the pace of external pressures is mounting more rapidly than providers can react. In fact, the challenge to stimulate top line growth and simultaneously reduce expenditures appears to be intensifying faster than ever before.

**“I am convinced that if the rate of change inside the institution is less than the rate of change outside, the end is in sight. The only question is the timing of the end.”** (Jack Welch)

Keeping pace with the many rapid regulatory and reimbursement changes will become an even more difficult task which will force providers to operate more cost effectively in the future. To meet these demands, healthcare executives must rethink traditional strategies, especially those created by the evolution of departments into “profit centers” and “business silos.”

After decades of reinforcing the silo approach in healthcare, providers are now faced with a daunting task of changing these ensconced practices to create a culture of collaboration across all aspects of operations. As merely one example of the resulting problems, many providers still allow numerous departments to utilize “their own” transportation personnel. Departments such as laundry, dietary, the storeroom, sterile processing, pharmacy, receiving and patient transport have their personnel crisscrossing through the hallways and consuming far too much elevator time (not to mention the delays, disruption and noise generated that often results in dissatisfaction expressed to and by physicians, nursing staff, patients and family members). Strangely, provider’s leadership continues to accept the host of excuses created to justify this wasteful insanity. Obviously, one of the most difficult tasks facing today’s healthcare organizations is to overcome their traditional “ways of doing things” and to refocus mindsets from thinking in terms of “silo” operations based on a collection of independent “profit centers” into a more collaborative and cohesive organization.

Tomorrow’s viable healthcare organizations will have to recognize the principles of Gestalt theory in order to establish effective measures to thrive and not merely survive in the future. Simply, they will have realized the whole can be greater than the sum of the

individual parts. In healthcare today, except for the Executive Team, where do we really see efforts to function for the good of “the whole”? Do providers really have cross-functional teams? Are there leaders within the ranks of the department directors who can and are allowed to bring about organization-wide collaboration to manage all non-payroll expenses that comprise 50+% of every dollar expended by providers, or are they really just managers over their own silos? These questions may not be asked frequently within the ranks of provider executive teams. However, today it is becoming increasingly more important to realize the rapidly changing circumstances such as payer mix, reimbursement changes, new regulatory pressures or any combination of these and many other variables will have an increasingly serious negative impact on the bottom line of many organizations. With the convergence of this multitude of negative factors, it is inevitable that someone will be perceived as being responsible for negative outcomes. **These will be the individuals in the cross hairs.**

Typically, the role of a CFO isn't one which enables them to take preemptive action. However, even with rudimentary scenario planning, regardless of the form which will evolve for the delivery of patient care, the analysis will always indicate one fact - providers will be faced with the need to deliver a combination of high quality of care at the lowest costs practical or they will not survive. So, while CFOs may not be considered as being responsible for the creation of collaboration within the organization, aren't they often held accountable for the outcome resulting from the lack of collaboration: **deteriorating margins?**

The fact that healthcare non-payroll expense management efforts have evolved to focus on form rather than function is an issue which CFOs must expose and seek Executive support to rectify. For example, missing elements from this critical segment of healthcare (one which represents approximately 50-55% of every hospital dollar expended) include:

- Ownership (i.e. accountability) of processes and sub-processes; e.g. technology assessment, commoditization of products, in-house consultative services for physicians (Where do physicians go for consulting advice? Where else, but the suppliers!)
- Cohesion between all managers and executives
- A sense of urgency (As urgency decreases, complacency increases.)
- Clearly defined objectives
- Defined roles and a clear structure
- Leadership specific to an organization-wide initiative
- Recognition for accomplishments/contributions of all participants
- Consequences for the failure to achieve realistic results

Obviously, the failure to focus on the transformational aspects of leadership, culture, mission, vision, and strategy execution to address this major portion of every organization's budget cannot continue.

The transformation of mindsets within healthcare organizations will be a major challenge for Executive Teams and, in particular, the CFOs. Historically, because urgency has not been a factor, department managers fear “new” projects because these “flavor of the month” approaches call upon them to participate in or lead segments while maintaining their regular, full time duties. Already, provider CEOs have a problem ensuring effective and efficient execution of the organization’s strategies because the middle managers lack the enthusiasm and collaborative spirit (and too often the skills and essential characteristics) to produce better than “good enough” outcomes. While few, if any, middle managers will readily admit to the fact that their efforts to collaborate on initiatives focused on the well-being of the organization as a whole have been sub-optimal, nearly every executive team recognizes this scenario as being factual. Why? The reasons are too numerous to mention in this document. However, as most healthcare organizations have evolved, their middle managers (the key to strategy execution) place their primary focus on “their” department, ensuring “their” performance metrics are attained (even if it is at the cost of other departments output), controlling “their” budget, maintaining the quality of “their” operations and trying to protect “their” employees from any reduction in the workforce. Typically, managers view any initiative external to their department as episodic nuisances. Accordingly, they merely attempt to “hold on” until the campaign ends, just like it has in the past. Unfortunately, these reactions have actually become a part of the culture of most healthcare provider organizations, thus allowing complacency to continue to thrive.

Fortunately, many CEOs and COOs have identified the need to change behavior within their organizations. For some time now, progressive providers are hiring organizational development specialists to address this essential task. Hopefully, providers will realize these efforts will take several years and cannot be accomplished without a major commitment of time and energy.

Looking for a “leader” to assume ownership of non-payroll expense management processes is another major problem for Executive Teams and the CFO in particular for two primary reasons. First, transforming internal processes will not be as simple as issuing an edict or adhering to a detailed report prepared by some consulting firm. Second, the problem is far too embedded and complex for it to be solved by one leadership hero who rides into the organization on a white horse. This is especially true if the expectation is that the crux of the problem is related to the failure to have the “right” Director of Materials Management (DMM), a position which reports to the CFO in more than 60% of all healthcare organizations. In fact, it is this reporting relationship that is another major issue for most CFOs. Until an organization recognizes the need for true cultural change, most attempts to modify the scope and objectives of the DMM position, regardless of how well intended, will merely be perceived as an attempt to gain control over the prerogatives of other department directors or physicians by the incumbent DMM or any “new” one.

CFOs may not want to appear be alarmist but someone needs to lead the process of rallying the organization to recognize the urgency of preparing for the probabilities which are clearly evident through even a basic scenario planning exercise.<sup>1</sup>

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<sup>1</sup> (Note: The 911 Commission report admonished the entire intelligence community for failing to incorporate disruptive possibilities into their scenario planning processes. Simply, the “good enough” approach wasn’t good enough! For some great insight into the findings of the 911 Commission’s report which are applicable to business, we recommend you review the brief article from Fast Company magazine, February 2005 issue, <http://pf.fastcompany.com/magazine/91/gosepels.html>).

Clearly, regardless of reporting responsibilities, CFOs have a vested interest in reshaping the organization's processes relating to the management of non-payroll expenses while others focus on the long term process of cultural transformation. In today's environment, while healthcare organizations are looking for leaders to expand their traditional roles to create organization-wide collaboration and cohesion, CFOs must disrupt the pattern of complacency by continually stoking the urgency fire for effective expense management. Much like Khrushchev, from time to time, they may find themselves banging their shoe on the table at a meeting of the Executive Team. If they are worried about being embarrassed, **remembering the cross hairs may help!**