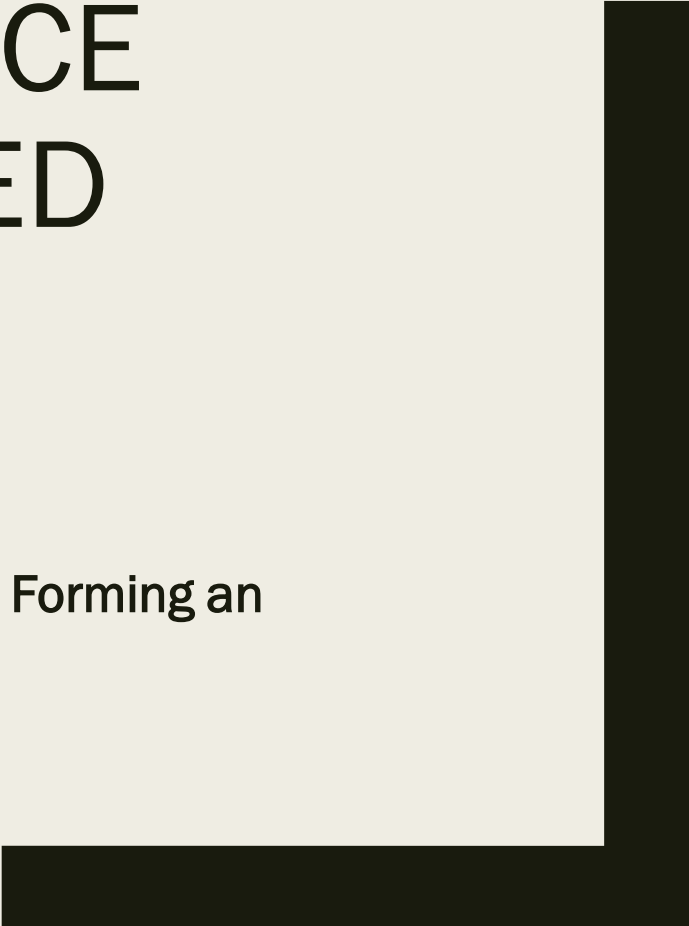


FINDING YOUR VOICE IN A PHYSICIAN LED ORGANIZATION

Or

How to Prevent Extremely Competent People From Forming an
Extremely Incompetent Group

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November 16, 2015



HFMA Code of Ethics

- As a member of the Healthcare Financial Management Association, I will endeavor to promote the highest standards of professional conduct by:
 - *Practicing honesty and maintaining personal integrity, including avoidance of conflicts of interest with those of my employer or the Healthcare Financial Management Association;*
 - *Adhering to high standards of personal conduct;*
 - *Striving for the **objective and fair** presentation of financial information;*
 - *Fostering excellence in healthcare financial management by keeping abreast of pertinent issues;*
 - *Maintaining the confidentiality of privileged information;*
 - *Promoting a greater understanding of financial management issues by others in the **healthcare field**, and seeking increased public understanding through communication about such issues; and*
 - *Seeking to maintain **a reasonable balance between the quality and cost** of health care.*

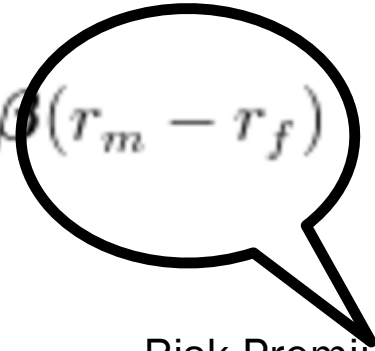
Capital Asset Pricing Model

$$\text{Expected Return} = r_f + \beta(r_m - r_f)$$

r_f = risk free rate

β = Beta

r_m = return on the market



Risk Premium

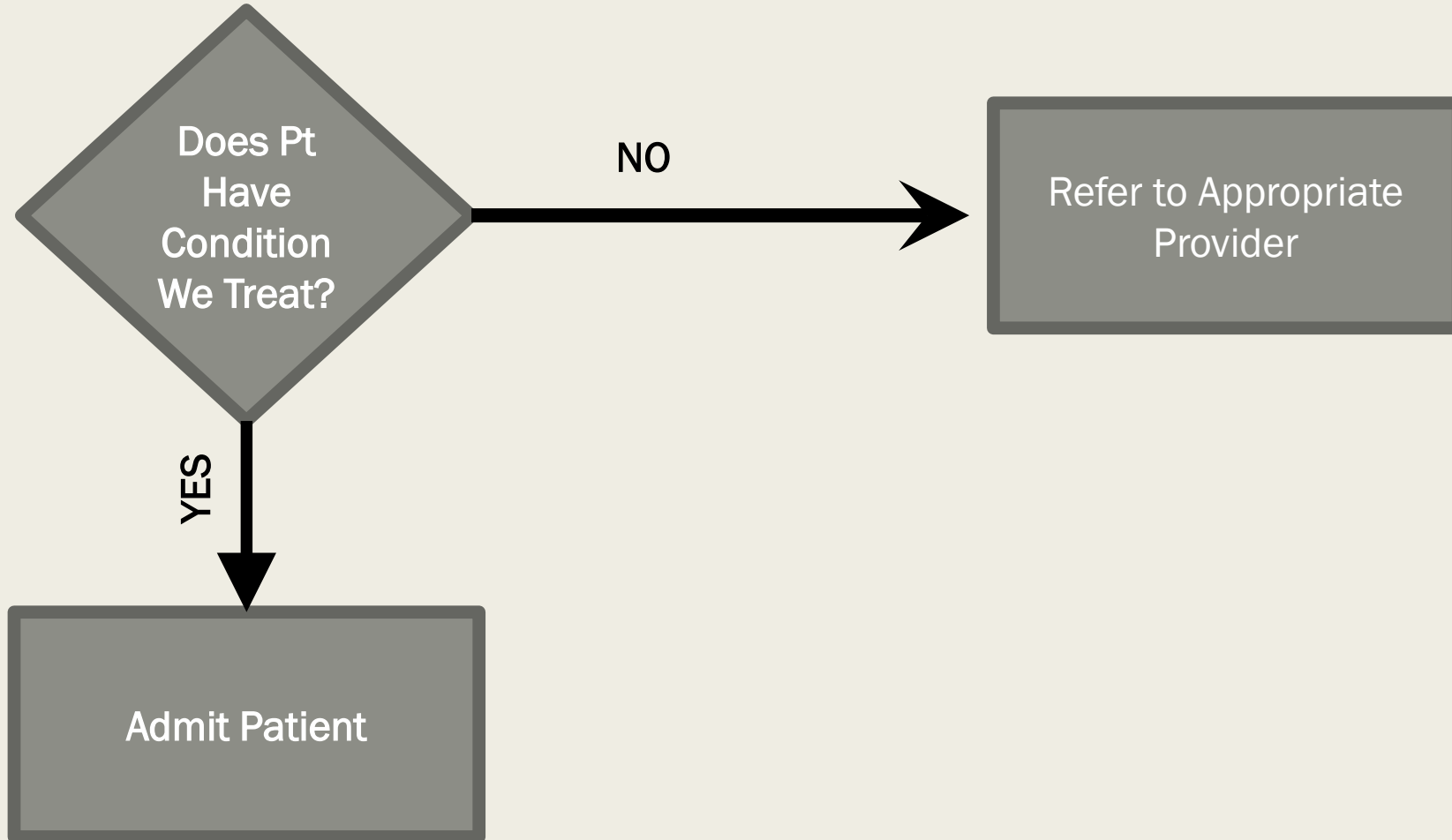
“Typical” PCP Day

- *See 20 patients. Decide on treatment, meds, referrals, and next appointment for each one*
- *Obtain authorizations from payers. Decide if test is necessary or if alternative is available*
- *Answer phone calls from pts. Advise them on their issues*
- *Review lab tests and image reports fax to provider. Decide if followup is necessary*
- *Complete documentation, hopefully supporting decisions made.*

Typical Employment Contract Language

In the performance of professional medical services hereunder, Physician shall employ Physician's own means and methods and shall exercise Physician's own professional judgment and shall not be subject to the control or direction of any other person, except that _____ shall have and may exercise all authority accorded it under applicable law governing the practice of medicine to review and control the professional activity of Physician through peer review and other means

Change Takes Time



Organizational Roles and Responsibilities

- Board Responsibilities
 - *Set the goals for the organization*
 - *Establish policies for the organization*
 - *CEO selection and evaluation*
- CEO Responsibilities
 - *Meet goals set by Board*
 - *Hire and supervise all other staff*
- Manager Responsibilities
 - *Coordinate activities under their control as designated by CEO*
- Employee Responsibilities
 - *Perform functions under supervision of Manager*

“Normal” Board and Administration Roles

Administration

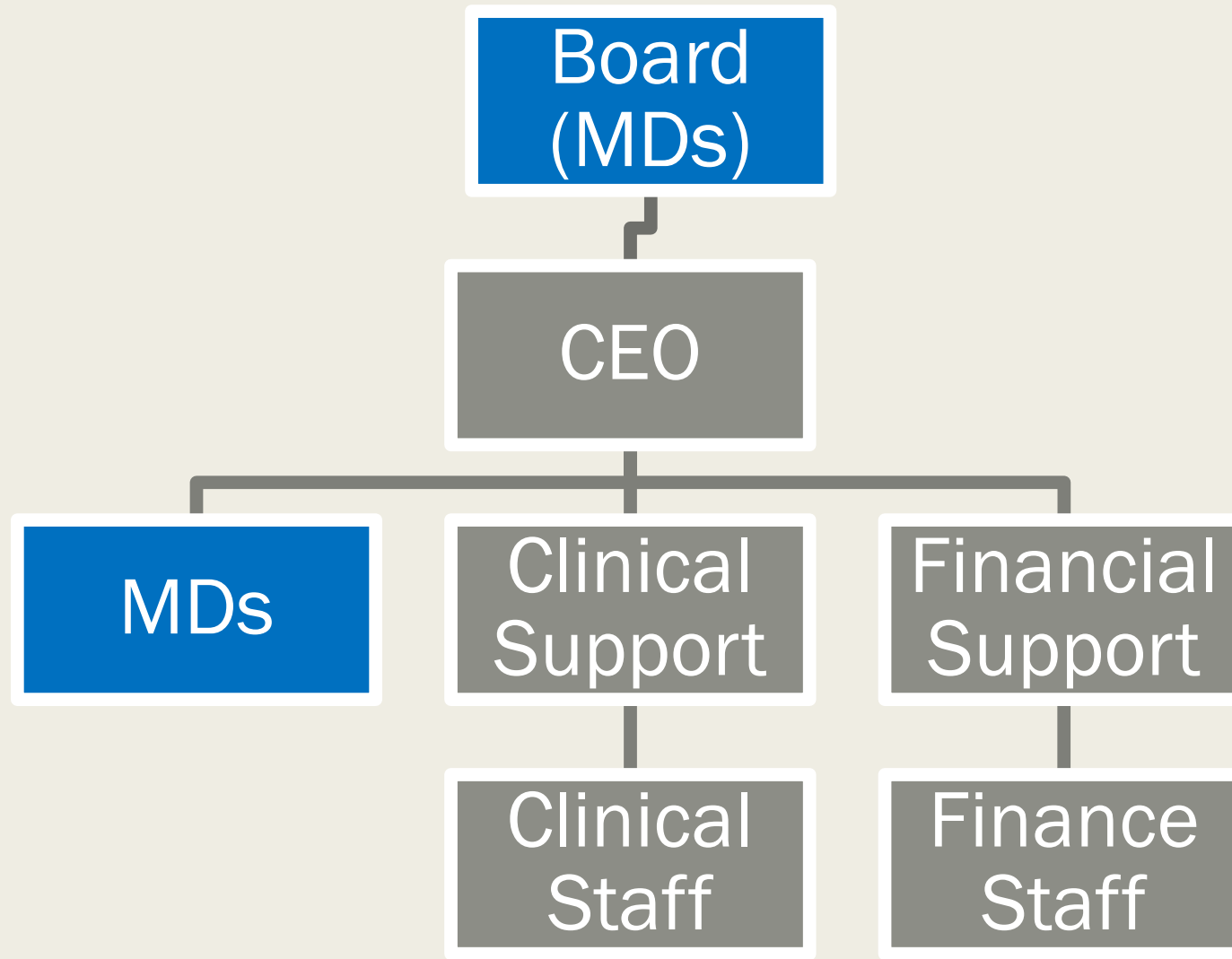
- Part of culture
- Guided by old assumptions
- Need to be believing

Board Members

- Open to change
- Question old assumptions
- Need to be critical

What if the Board members are also key employees?

Confusing Organization Chart



Confusing Roles

- *CEO – I don't want to miss the boat*
- *CFO – I don't want to sink the boat*
- *MD as Owner – It my boat*
- *MD as Board Member – I set the course*
- *MD as Key Employee – I'm rowing as fast as I can*
- *MD as Manager – Who are all these people?*

Governance/Management Issues

1. Culture of Conservatism
2. Misperception of New Business Opportunities
3. Senior Management Distraction
4. Failure to Exit Under Performing Strategies
5. Inadequate Performance Measurement

Characteristics of Good Governance

- Longer term planning horizon
- Fewer issues
- Subjective debate
- Vision
- Disciplined
- Proactive

Common Flaws

- Governing/Workforce Confusion
- Reactive Stance
- Reviewing, Rehashing, Redoing
- Event Decisions
- Leaky/Fuzzy Accountability
- Diffuse Authority
- Time on the trivial
- Short Term Bias

Warning Signs

- Perception of Uniqueness
- Misplaced Confidence in the Future
- Rationalization of Poor Performance
- Absence of Focus
- Failure to Anticipate a Crisis

Consultants Can Be Educators

When should we use a consultant?

- When a Technical Skill Is Not Available
- When Technical Skill Is Available But Needed Elsewhere
- When A Facilitating Process Is Needed

Board/Organizational Pathologies

- Lack of participation by executive staff
- “Off agenda” items
- Transaction focus
- Domination by individual physicians or specialties
- **Sub-agendas pursued**

Suggestions to Improve Board Meetings

- Have divisional or specialty meetings to discuss operational issues
- Consider forming an Executive Committee
- Consider meeting less often
- Use a consent agenda for routine informational items

Questions to Ask Yourself When Your Recommendation Is Rejected

- Was my analysis solid?
- Were my recommendations correct?
- What was lacking in my salesmanship?

Gain Physician Confidence

- Make business diagnoses
 - *Undercapitalized*
 - *Eroding debt capacity*
 - *Staffing issues*
- Support your diagnosis with evidence
 - *Comparative ratios*
 - *Your experience*
- Suggest a treatment
 - *Layoff*
 - *Reduced physician bonus*
 - *Expand revenue*

Help MDs Understand Business

- Watch their 401K deferrals
 - *Did the maximize deferral?*
 - *Did they turn 50?*
- Consider April dividend
- Show share of value of company
- Compare Key Ratios to others

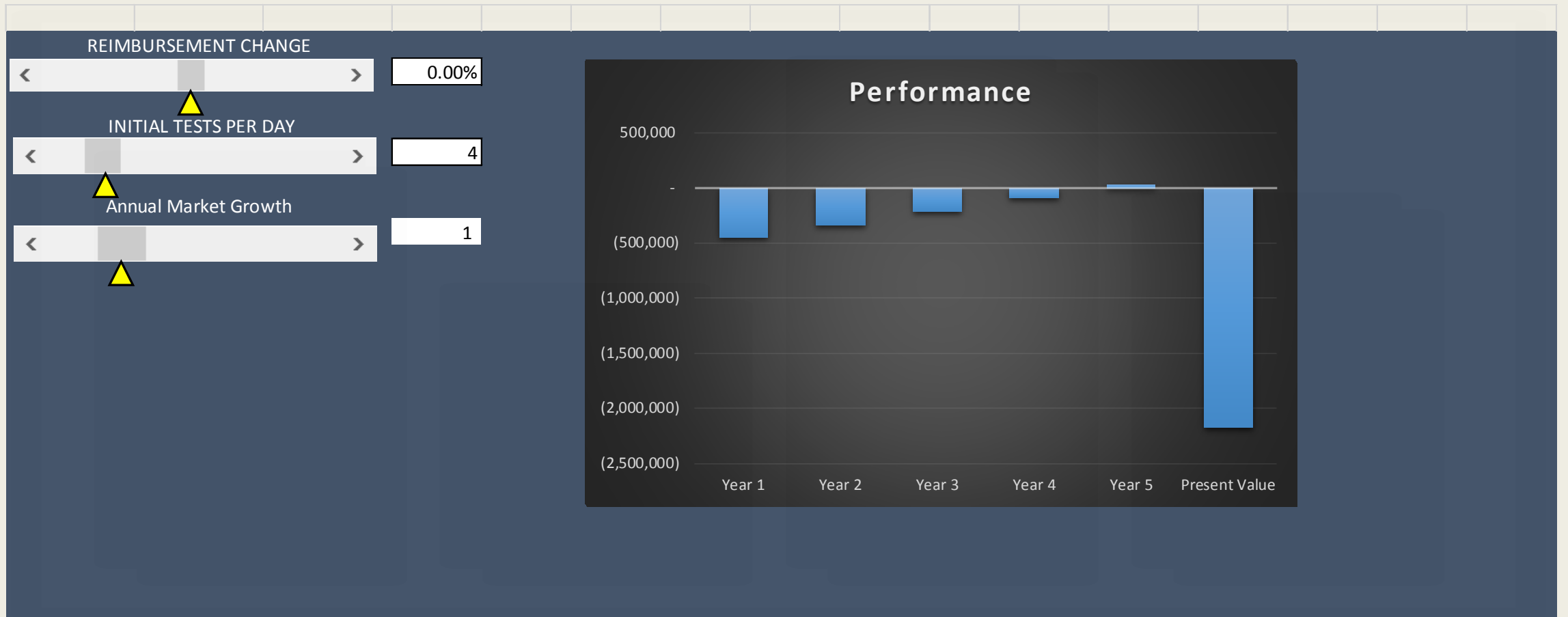
Finance Report

- Short – two or three pages
 - *Lead discussion during meeting*
 - *Use PowerPoint and callouts*
- Management Discussion and Analysis
 - *Future Looking*
 - *Implications for Strategic Plan*
 - *Contingency plans*

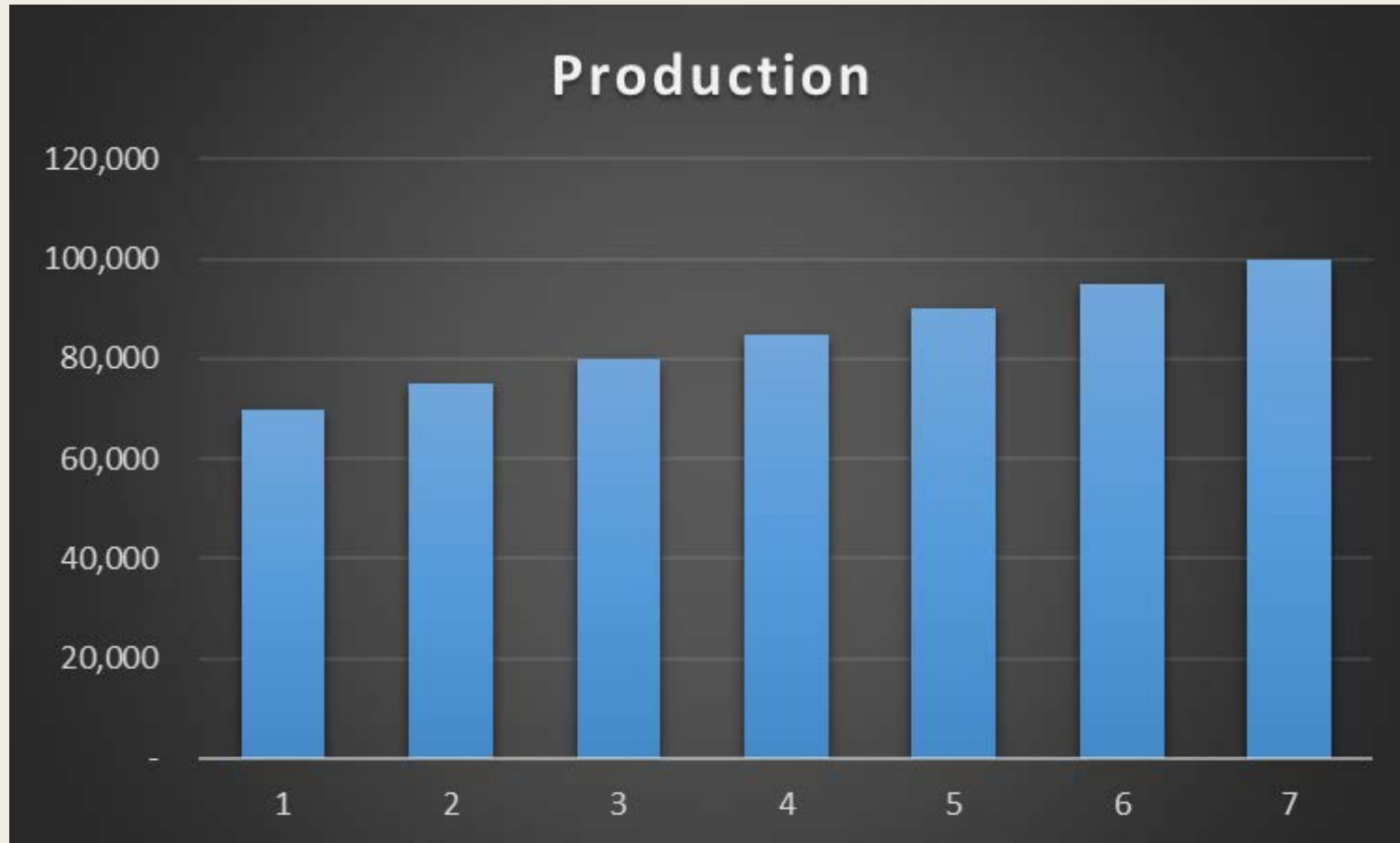
Typical Forecast

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Revenue Per Test	1,200	1,200	1,200	1,200	1,200
Reimbursement Change Per Year	0.00%	0.00%	0.00%	0.00%	0.00%
Updated Revenue per test	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>	<u>1,200</u>
Initial Tests Per Day	4	4	6	8	10
Growth	-	2	2	2	2
Tests per day	<u>4</u>	<u>6</u>	<u>8</u>	<u>10</u>	<u>12</u>
Revenue	<u>1,200,000</u>	<u>1,800,000</u>	<u>2,400,000</u>	<u>3,000,000</u>	<u>3,600,000</u>
Salaries and Wages	950,000	1,306,250	1,662,500	2,018,750	2,375,000
Supplies	250,000	375,000	500,000	625,000	750,000
Rent	350,000	350,000	350,000	350,000	350,000
Other Expenses	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Total Expenses	<u>1,650,000</u>	<u>2,131,250</u>	<u>2,612,500</u>	<u>3,093,750</u>	<u>3,575,000</u>
Net Income	<u>(450,000)</u>	<u>(331,250)</u>	<u>(212,500)</u>	<u>(93,750)</u>	<u>25,000</u>

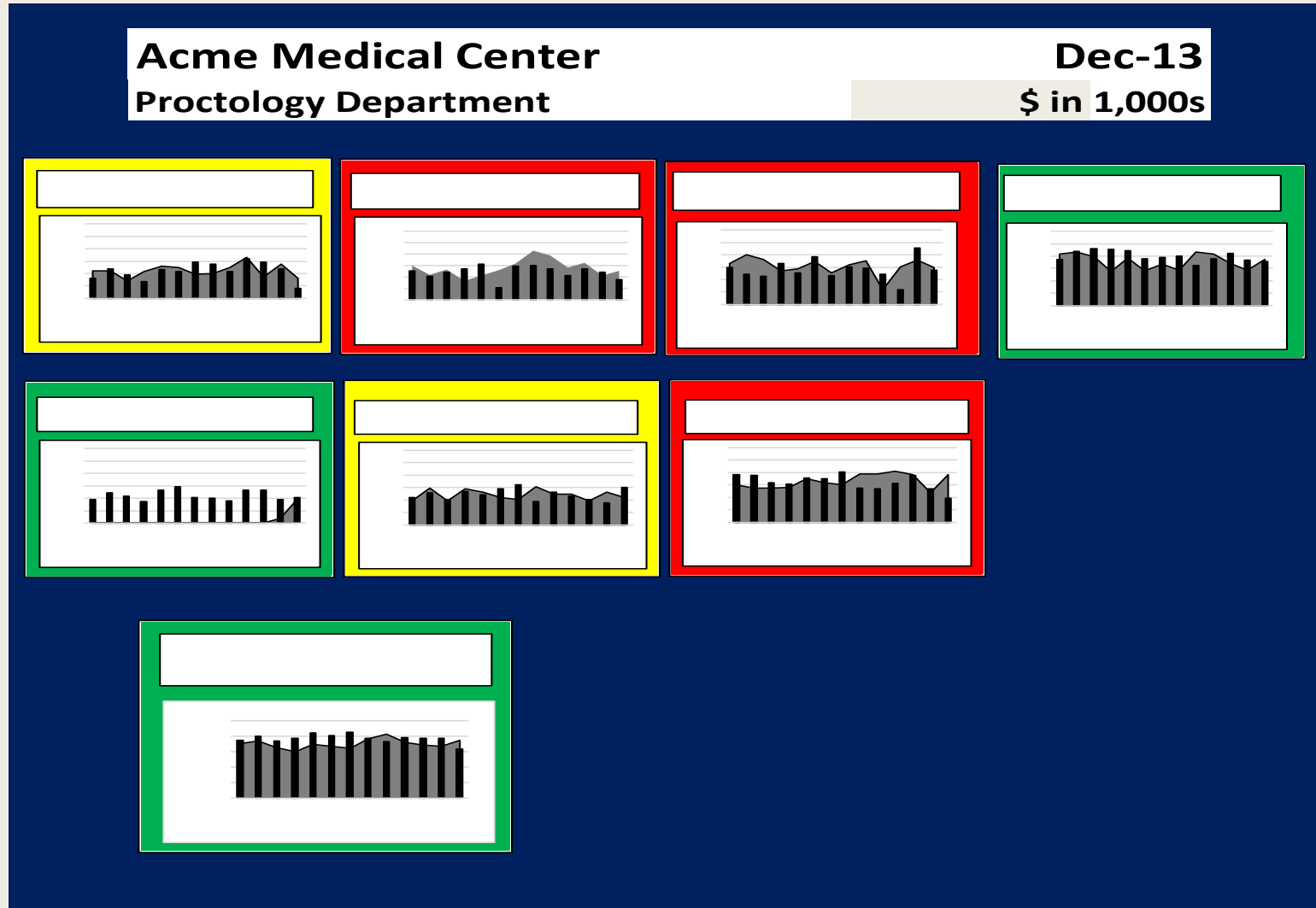
Focus the Discussion on Uncertainties



Cautious Communication Fails



Avoiding Uncomfortable Discussion



What Role Will You Assume?

- Guardrail



- Speed Bump



- Compass

