The Buckeye Connection

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Interested in assisting with the newsletter? Please contact Tara-Ann McElhearn (229-5165) or Johanna Matheny (233-5617).

The Challenges of Delivering the Elusive IT ROI...

CFOs are in a unique position to help solve the elusive ROI problem of costly IT investments. This article offers strategies, processes and tools to help CFOs succeed.

Senior executives continue to be frustrated over the lack of Measurable ROI (ROI) on costly IT investments. The healthcare industry is no exception - according to the 2003 HIMSS survey of provider CEOs, their number one frustration with IT was not being able to measure business value. Gartner, a respected IT research firm, goes a step further and suggests that many executives are not convinced the appropriate mechanisms for translating IT investments into business value exist. Bottom line, IT struggles with credibility problems in the executive suite and at the board level.

While there is no lack of explanations for this troubling ROI trend, many experts point to IT's transitioning to a more complex strategic role as a root cause. This advanced "change enabler" role offers great promise of ROI - allows organizations to redesign complex business processes, facilitates major business innovations and transforms how businesses are run. But also offers greater risks of failure with larger, more complex IT investments, business value dependent on the difficult restructuring of key business processes and governance processes not designed for these complex

The Challenges (continued)

projects. A final by-product of this new role is the many difficulties of directly linking ROI back to the IT investment. In summary, some high profile "poster children" of this new IT change enabler role are ERP and CRM solutions with CPOE an obvious candidate.

Delivering ROI will never again be as easy as the "good old days" where IT was primarily a substitute for labor-intensive back office tasks like payroll. The more complex change enabler role requires a modified strategy for organizations to consistently deliver ROI. The strategy needs to successfully tackle three related problems: implementing complex IT solutions; restructuring business processes to deliver the IT enabled business value and developing more effective governance processes to manage these difficult activities. CFOs are in a unique position to collaborate with their peers to develop the new strategy that delivers measurable ROI for high profile, costly IT investments.

The strategy starts by converting potential change enabler IT investment to a larger blended investment opportunity that includes all the non-IT pieces needed to deliver the ROI. Besides highlighting all necessary restructured business processes that will deliver the ROI, the advantages of this approach includes a more comprehensive view of decision-making factors such as scope, costs, risks and value.

The next steps in the strategy include: creating a value map to identify and integrate the IT and non-IT pieces needed to deliver ROI; performing a readiness assessment to evaluate the integrated projects developed from the map for risks and corrective actions to deliver ROI; and reviewing the current governance processes because change enabler IT investments often require

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What is Financial Services, Anyway?

By: Luke Brown, President, Central Ohio Chapter

Dear Chapter Members:

You can tell it is springtime in Ohio. Last week at this time, the temperature was a balmy 70 degrees and it was 20 this morning when I got into the car. Don't you just love it? No wonder folks take spring vacations!

The term "financial services" seems to be a buzz word within the finance departments of many organizations these days. For example, a hospital's billing and registration functions may be known a Patient Financial Services. What are the services that an organization's finance department should be providing to its internal and external customers? I offer my thoughts in the following paragraphs.

In this era of increased scrutiny regarding an organization's financial integrity, it is critical that financial services set the tone for an organization regarding the importance of establishing and adhering to a robust system of internal controls. This is certainly true in the healthcare industry, with its complexity, multitude of risks and regulations, and dependence upon governmental funding sources. Performance of an annual risk assessment and affirming and/or developing internal control processes to address the findings of the risk assessment will help the financial services team of an organization ensure the appropriate controls are in place. However, the more important aspect of this issue is ensuring that the internal control systems are being adhered to. Otherwise, what is the point of having such systems? Leadership is an essential element to the successful adherence to systems of internal controls. Financial services leaders must communicate the importance of internal control systems to their counterparts in operations, so that these internal controls can become part of an organization's culture. If policies aren't being followed, positive corrective action should occur.

Another important role for a financial services team within an organization is providing timely, accurate financial information and analyses to management. In this role, financial services personnel maximize their value by functioning as partners with management. It is one thing to distribute reports, but quite another to sit down with managers and help interpret the numbers. The benefits of this partnering approach are twofold: managers may gain valuable insight into their financial results, allowing them to make improvements that increase departmental productivity, and finance professionals learn more about various aspects of the business, thereby increasing their value to the organization.

Lastly, the "services" aspect of the finance team's role is significant. If we finance professionals provide quality work products, but are unable to deliver them in a customer friendly manner, we don't have much chance to be successful. Others throughout the organization will not want to engage our services if we are not professional, respectful and communicating with them in a timely fashion.

I hope to see many of you at our upcoming education event on March 19th. It promises to be a great program, and will have some fun watching "March Madness" unfold at the Buckeye Hall of Fame Café afterwards.

Why Capital Structure is Critical to Nonprofits' Survival

By: Malcolm Nimick, CFA

When a nonprofit organization receives a gift, it can be used to reduce debt or increase liquidity. Either choice impacts the organization's capital structure. So, what is the best use of that cash?

First, let us define capital structure and explain why it is important. Capital structure refers to the permanent long-term financing of a company, including long-term debt, fund balance (equity) and net assets (retained earnings).

An optimal capital structure for a nonprofit balances a mix of debt and liquidity to minimize the risk of financial failure. For perspective, most for-profit companies focus on minimizing the total cost of capital or maximizing the market value of equity.

An ideal capital structure is one that maximizes the credit characteristics of the organization. Having a less than ideal capital structure can threaten the organization's ability to survive for perpetuity by reducing its credit worthiness and ability to borrow funds.

An organization's risk of failure increases dramatically as credit quality changes from investment grade to speculative grade. Financial ratios are an important component of credit quality and can be viewed as a mechanism to predict future default. We can use financial ratios not only to evaluate an organization's capital structure but to serve as a diagnostic tool to make decisions about the best use of a cash gift.

Organizations can optimize their capital structure by calculating capital and liquidity ratios and working to improve the lowest credit characteristic. Capital ratios include debt-to-total assets and debt-to-capitalization. Liquidity ratios include days cash on hand and cushion ratios.

We often use the following example in discussions about capital structure. A hospital has data for a liquidity ratio and a capital ratio. The days cash on hand ratio is below investment grade. Therefore, this organization is at greater risk of failure because it can run out of cash. As the organization receives cash, it should be used to increase liquidity.

This finding is extremely important, because many nonprofit organizations have a tendency to use cash to repay debt. In this example, being influenced by this bias and repaying debt instead of increasing liquidity would have further weakened the capital structure and threatened the organization's longevity.

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This analysis is also useful when deciding whether to fund a project with cash or financing.

Determining the optimal capital structure can have a significant impact on the ability of an organization to survive for perpetuity. Lancaster Pollard Investment Advisory Group is ready to assist your organization in determining its optimal capital structure.

About The Board Brief

The Board Brief is a bimonthly column written by Lancaster Pollard Investment Advisory Group, a SEC-registered investment advisor. Its mission is to help nonprofit organizations exist for perpetuity by assisting board members and executives fulfill their fiduciary duties and optimize investment plans and outcomes. To learn more, visit www.chiefinvestmentofficer.com.

governance changes. The following briefly explains these steps in more detail:

1. Create a Business Value Realization Map… which provides a collaborative process and tool to identify and organize the relevant IT and non-IT elements into a series of integrated initiatives and associated outcomes to deliver ROI for proposed investment opportunities. The initiatives include the necessary business process changes, organizational changes, IT solutions support, human resource requirements, training and other needed business changes to deliver the expected outcomes. Outcomes, either economic or strategic (i.e. patient safety) should be measurable, quantified and benchmarked for reasonableness. And relevant business assumptions supporting the initiatives and their associated outcomes should be documented and also benchmarked for reasonableness. The importance of this map is the linking of IT capabilities to the restructured business processes and detailed quantified outcomes that provide the basis for ROI.

2. Perform a readiness assessment for the integrated projects… that allows the organization to perform a "gap" analysis of needs against current resources and capabilities to successfully deliver the projects. This step is performed after a set of integrated, detailed projects is created from the above map, researched and approved as potential solutions. The assessment should address at least the following five areas: business processes changes required; people/skills availability; management support processes i.e. change management; organizational support for the projects; and IT capabilities or options, including how the projects will fit into the current IT Architecture. This readiness assessment provides an ideal checkpoint to identify risks and corrective actions needed to successfully deliver the investment. It's also a good point to further risk adjust the ROI if appropriate.

3. Evaluate current governance support for change enabler IT investments… candidate processes to start with include: (a) Accountability for the ROI; (b) ROI Measurement System to support Accountability; (c) Change Management Skills to facilitate the delivery and acceptance of complex business changes; and (d) Project Management Skills to manage the integration and delivery of multiple complex projects:

- *Accountability…* a single senior executive should sponsor the set of integrated projects (IT and non-IT) of the blended investment opportunity. The sponsor should be willing to be held accountable for approved ROI, including any budget implications. For this process to be effective, the sponsor must be senior enough to have the power and authority to remove barriers and hold staff accountable for results. Accountability should be tied to annual goals, compensation and bonuses for all key staff involved in delivering the ROI. Without this accountability, expecting ROI to be delivered is unrealistic.

- *ROI Measurement System…* if it's not measured it's not managed". The system needs three components to be effective: (1) ROI outcomes that are specific, measurable and quantified (this also applies to strategic value such as patient safety); (2) a baseline measurement for the ROI outcome targets prior to starting the projects; (3) and a process to measure and collect the ROI outcomes. The measuring, tracking and reporting should be on going to insure the value continues to be delivered. Please note that reporting systems are not easily implemented because the required information is not generally a by-product of existing systems. However, effective ROI accountability without measuring systems is not possible.

- *Change Management Skills...* resistance to change is fairly common and since change enabler IT investments are dependent on restructured business processes for ROI, proactive management of change is important. Superior change management skills to engage staff in understanding, incorporating and accepting business changes are needed for success. If your organization does not have a solid track record of change management success then improving these process should be high priority before undertaking these projects.

- *Project Management Skills…* the skills, processes and tools needed for complex change enabler IT investments are greater than those needed for typical IT projects. Skills for review include: coordinating multiple integrated projects with major business pieces vs single IT projects, project scope that includes complex business process changes vs. IT functional capabilities, ROI focus vs IT project time and cost focus, and ROI accountability vs IT project accountability. Adding these advanced project management skills is necessary to manage the delivery of ROI.

In summary, IT is transitioning to a more strategic business "change enabler" role. This new role requires revised strategies, processes and tools to deliver ROI. And this article introduces CFOs to many of the important changes needed and provides a "starter kit" to help champion the necessary changes – ideally in time for CPOE decisions.

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Career Corner

We would like to identify individuals with five to ten years of healthcare audit experience at any of the major auditing firms for consideration for a controller position at Glenwood Regional Medical Center in West Monroe, Louisiana.

Responsibilities include monthly reporting and operations review, new productivity system implementation, financial and P & L analysis by product line, cash management and other treasury responsibilities and management of eight employees including 2 CPA's. J.D. Edwards financial information systems experience would be helpful. The hospital is well into a $7 MM turnaround in just one year.

Candidates must have all the qualities of a potential CFO and be viewed as the heir-apparent. Glenwood Regional is a 237 bed hospital.

For additional information, please send a resume in confidence to:

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972/490.1370
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THE WHITTAKER GROUP EXECUTIVE SEARCH, INC.

Since 1986, The Whittaker Group has provided local and national recruiting and executive search services exclusively within the healthcare finance, accounting, operations, medical records, HIMS and administrative specialties.

Ms. Whittaker, nationally recognized as an expert in healthcare executive search, is an Advanced HFMA Member and has recently completed 2nd term as a Board member for the Eastern Michigan Chapter.

Updated on 03/1/2004

9658; Vice President Risk Management

9658; Managed Care - Director of Operations

9658; Director Billing

9658; Primary Care - Director of Finance/CFO

9658; Senior Consultant - Revenue & Health Information System

9658; Director Reimbursement & Compliance

9658; Director Nursing Education

9658; Human Resources Director

9658; Vice President Sales & Marketing

9658; Managed Care - Manager Claims & Customer Service

9658; Manager Contract Administration

9658; Vice President Risk Management

9658; Senior Analyst - Decision Support/ Reimbursement

9658; Medical Records Director/Health Information Management

To obtain information on these positions, please contact Michelle Whittaker-McCracken at (248) 489-3900 or mwhittaker@wgsearch.com

Mark Your Calendar

HFMA Education Seminar/NCAA Tournament
March 19, 8:30 a.m. - 5:00 p.m. (Program begins at 9:30 a.m.)
Buckeye Hall of Fame Cafe

"2004 Benchmarking to Improve Performance"
- Four Keys to Financial Success
- Benchmarking Process
- Cost Management Process
- Key Areas: Cost Pricing and Volume

Presented by William O. Cleverley, Ph.D., President, Cleverley & Associates

"Making the Transition from Cost Accounting to Strategic Costing"
Presented by Tony Colarossi, Senior Manager, Plante & Moran, PLLC

Finance 101 Education Seminar
With Social Event on the 29th
April 29 & 30

Spring Golf Outing
Tentatively June 1, 2004
Location TBA

HFMA's Annual National Institute
June 27-July 1
Nashville, Tennessee

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