

NAVIGATING THE NEW CFO LANDSCAPE

BY SANDY CUGLIOTTA, DIVISIONAL VICE PRESIDENT

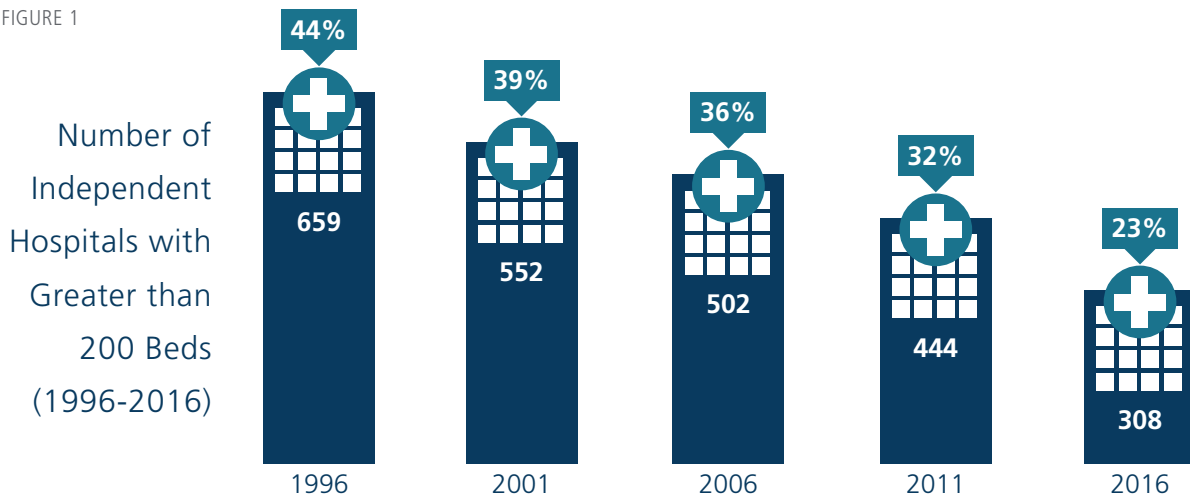
INTRODUCTION

Industry consolidation has been a dominant trend for several years as hospitals have merged and acquired physician groups in search of the benefits from scale. The trend has dramatically altered several executive roles, but the finance function and the Chief Financial Officer (CFO) role have been uniquely impacted. B.E. Smith closely monitors these developments through our search and advisory work. This Practice Perspective summarizes the changes, challenges, and development strategies affecting today's CFO.

THE CONSOLIDATION WAVE

The numbers clearly portray the extent of consolidation. The percentage of independent hospitals over 200 beds has fallen to 23% from 44% in 1996, with their number declining by nearly 40 percent in just the past 10 years (see Figure 1). Two-thirds of community hospitals are now part of health systems.¹

FIGURE 1



Source: American Hospital Association Hospital Statistics 2017, 2013, 2012, 2008, 2005, 1998

THE CHANGING CFO ROLE

The implications have been far-reaching. No longer just the executive overseeing core financial and capital markets functions and “concentrating on the numbers,” today’s CFO is now expected to exhibit strength in three areas that reflect evolving role requirements:

AN ENTERPRISE-WIDE, SYSTEM-LEVEL PERSPECTIVE

CFOs must bring vision and execution to issues characterized by growing complexity and scale. They are central players in achieving the integration among diverse business and clinical constituencies that are prerequisites to success.

¹ American Hospital Association, *AHA Hospital Statistics*, 2019.

BROADER OPERATIONAL SCOPE AND RESPONSIBILITY

Consolidation has led to centralization of administrative functions. Many CFOs have assumed direct accountability for a range of system-wide shared services such as revenue cycle management, IT, medical records, and more. As one CFO put it, the position should now be viewed as “a COO with a financial twist.”

STRATEGIC EMPHASIS

The CFO is a strategic partner with the CEO and senior leadership team, contributing on an equal basis to mapping direction, driving change, and maintaining agility. That means understanding industry forces and evaluating market opportunities.

Three strategic financial issues command CFO attention:

Consistently driving margin improvement and cash flow. Once again, reducing costs topped this year's *B.E. Smith Leadership Intelligence* survey of strategic priorities.

Risk management. Continually fluctuating reimbursement models are forcing assumption of greater risk. This territory continues to be a challenge for healthcare, and CFOs are at the forefront of setting appropriate risk parameters.

Determining how to fund major health system initiatives.

CHALLENGES

How do organizations find the new CFO? The task is complex, with several factors conspiring to shrink the pool of enterprise-ready CFOs. Many are approaching retirement. Experienced CFOs are less mobile, generally only willing to relocate if it fits their personal situation. At the same time, looking outside the industry has proven difficult. Matching compensation levels and gauging transferability of skills to healthcare are challenges.

We see a significant additional complication. Consolidation has tended to work against building a pipeline of internal candidates. Health system structures frequently circumscribe the role of CFOs at subsidiary hospitals, who are chiefly responsible for their facility's P&L and reporting up to corporate. They see reduced opportunity to gain the breadth and diversity of experience necessary to assume the CFO role at the health system level – or at a standalone community hospital.

ORGANIZATIONAL STRATEGIES: CFO DEVELOPMENT

Several creative strategies are being deployed to combat the problem and groom CFO talent.

RECONCEIVING ROLES

Many organizations are reorganizing and re-titling key financial positions to more accurately reflect altered roles. Northern Light Health, a 10-hospital Maine health system, instituted new job descriptions and titles to encompass a range of financial leadership. The CFO is system level, but the senior post at the largest medical center is now a Senior Vice President of Finance and each smaller facility has a Vice President of Finance. These new titles replaced the CFO designation. Paul Bolin, CHRO, explained, “We wanted to align talent with the proper role responsibilities. Previously, we were looking to hire a CFO, when in actuality the position requirements more closely matched a Vice President of Finance.”

CREATION OF MULTI-LEVEL AND REGIONAL TEAMS

Larger systems are forming regional or other group structures to expose subsidiary financial leaders to peers and to a broader strategic perspective. These teams work closely with the health system CFO to achieve “bigger picture” financial goals. For example, Bon Secours Mercy Health operates a 43 hospital, seven state footprint. In order to continue to deliver financial efficiency and stability to the local community they have structured to a model developed around three geographical groups, approximately 14 hospitals in each group, with a Group CFO leadership team in place.

LEADERSHIP DEVELOPMENT

Leadership development must be part of the toolkit. Two strategies effectively foster skills required to assume greater responsibilities:

- **Mentoring.** Provide ability to “ride shotgun” with the CFO and other executives to experience corporate finance activities, IT strategy discussions, presentations to bond rating agencies, engaging in M&A strategies, and other enterprise efforts.
- **Succession planning.** Formalize a program with clear advancement paths. Ensure personalized development, not one-size-fits-all.

To fill our future CFO positions, we are finding it necessary to evaluate early on our internal bench strength and to look to building strong succession plans with financial leaders that have the versatility in skills and agility to perform in these complex health care roles.

—Jessica Bacher, Chief Talent Acquisition Officer,
Bon Secours Mercy Health

FROM THE CANDIDATE’S PERSPECTIVE

How can you place yourself on the CFO track? We recommend several proactive steps.

- **Determine your desired career path over a three- to five-year horizon.** Make your goals known to management and solicit feedback on how to achieve them.
- **Seek opportunities to expand skills and experience.** Good examples include meaningful involvement in:
 - Performance improvement committees
 - Revenue cycle management optimization efforts
 - Presentations to bond rating agencies
 - Ask to lead system/corporate level initiatives
 - Engage in M&A activity
- **Talk with an experienced executive recruiter.** Even if not seeking a position, it helps to discuss your background with a professional who understands current CFO requirements and can offer candid advice.
- **Update your resume.** On a quarterly basis, reflect new successes, metrics, and experiences. Too often we see resumes lacking important previous information. This is a good exercise for all executives regardless if they are seeking new opportunities.
- **Consider additional credentials.** The most important one today is the CPA. An MBA also adds value to the prospective CFO.

CONCLUSION

The trends in place virtually guarantee that the CFO role will continue to expand and change and the pool of qualified candidates will continue to shrink. Organizations need to be open and creative in adapting structures and internal development to build the talent base. The time to get started is now.

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