

# The Board's Role In Planning: Financial Turnaround Plans



Conversations on Governance

Sept. 19, 2021

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# Confession

- I have been involved in 15 turn around plans.
  - 8 college/universities
  - 6 Hospitals
  - 1 Other church institution
- Some have been successful and some have not been successful.

# Introduction

I will share with you the reasons that I encountered that made some turn around plans successful and others fail.

There are two main reasons why some failed and others were successful.

# **The number 1 reason why turn around plans fail.**

All successful turn around plans have had boards and administrators who have had the emotional strength and willingness to act.

All unsuccessful turn around plans have had boards and administrators who have not had had the emotional strength and willingness to act.

# Guidance for us to consider.

“Independent men of earnest endeavor are needed, not men as impressible as putty.”

“A man who cannot adapt his abilities to almost any place if necessity requires is not the man for this time.”

“Men whom God will connect with His work are not limp and fiberless, without muscle or moral force of character.”

**The number 2 reason why turn  
around plans fail.**

The Board and administration wait  
too long to initiate a turn around  
plan.

“When you find yourself in a hole,  
stop digging”.

Will Rogers

“When you find yourself in a hole, stop  
digging and find a way out. When  
you find yourself headed for a hole  
find a different path.”

Anonymous



# Question for all.

Would you rather:

1. dig yourself out of a hole

OR

2. see the hole coming and chose a different path?

# Indicators that you are in a hole

- Cannot make payroll?
- Cannot pay suppliers?
- Cannot service the debt?
- Operating losses?
- Cannot accomplish preventive maintenance on buildings and equipment?

**Watch for earlier indicators that you are headed for a hole.**

# Three Key Components of a Turn Around Plan.

1. A plan of increased income and decreased expenses that when implemented will result in an acceptable financial picture for the organization.
2. Changes in governance and operations that will help insure that the organization does not fall again into financial difficulty.
3. A cash flow plan on how the cash will be used during the financial recovery.

# Two realities of a successful turn around.

1. To plan and implement a turn around plan is not easy and requires people who can make things happen. It requires wisdom and emotional strength.
2. The Board becomes much more involved in the institution during the planning and implementation of a turn around.

# The Board involvement.

1. Initiates the turn around.
2. Appointments a Board committee to work with administration on the preparation and implementation of the turn around.
3. The committee should meet on a regular basis, usually once a month.
4. It is important for the committee and the board to provide emotional support to administration and hold administration accountable.

# Objectives

## Six questions for the Board.

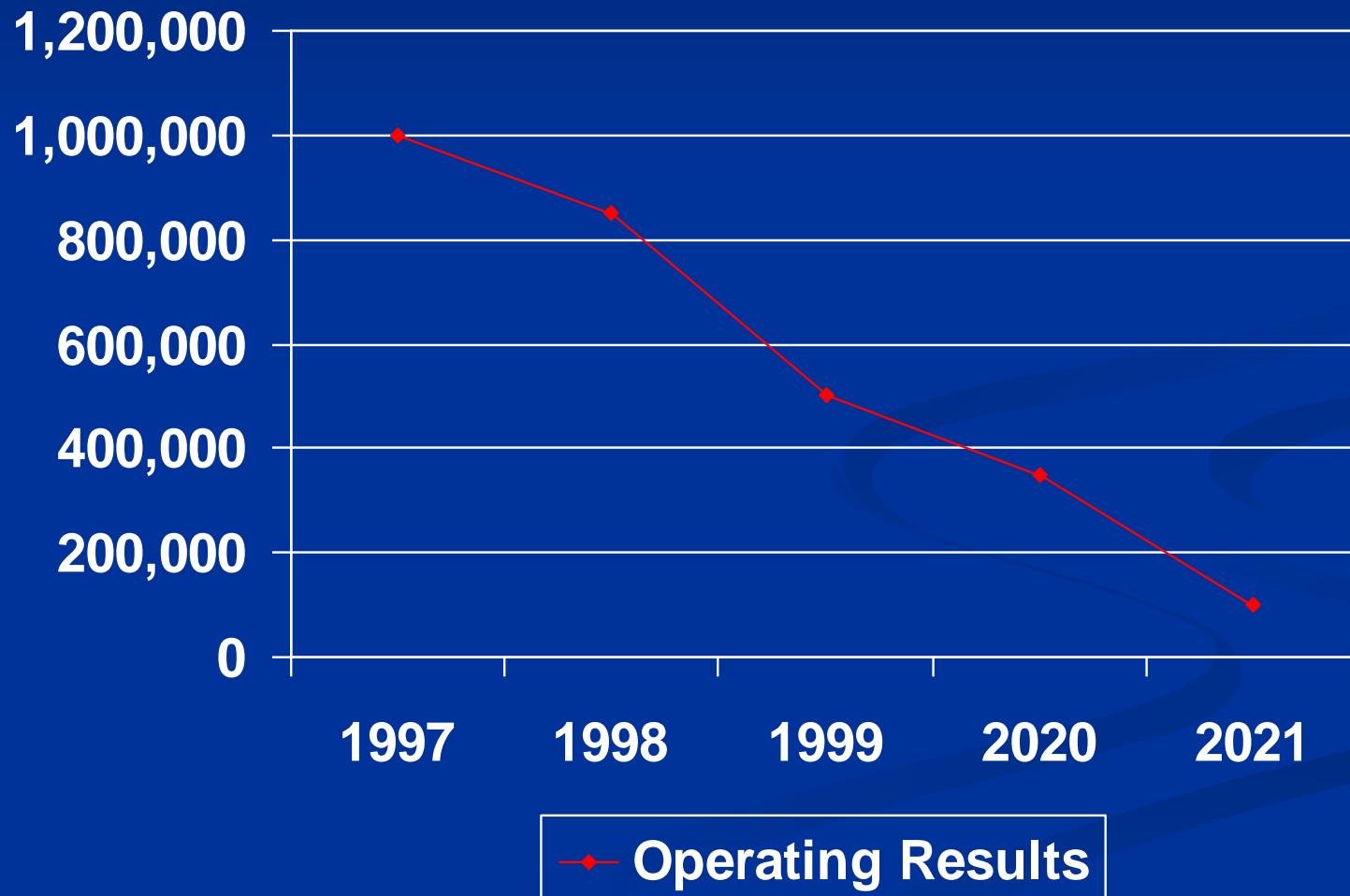
1. Where are we financially and where are we going?
2. How did we get there?
3. What are we going to do to insure we don't go there in the future?
4. Where do we want to go?
5. How are we going to get there?
6. How are we going to survive during the plan implementation?

# Where are we financially?

- In 2020 we had an operating gain of almost 400,000. We were current in our payables and debt service.
- It looks like 2021 will also have an operating gain.
- NO PROBLEM????

**Decision based upon 1 year and an estimate of a second.**

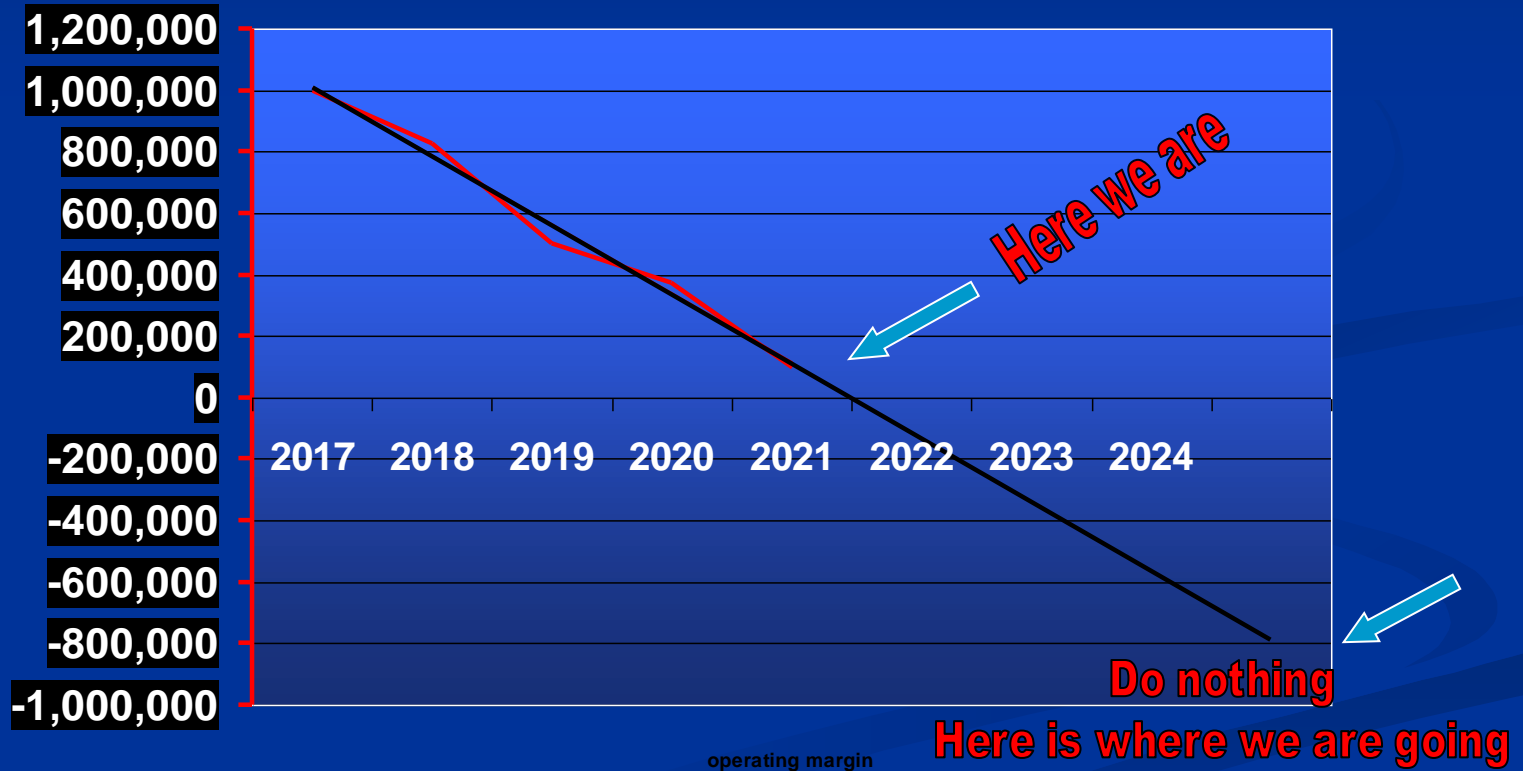
**Is Thus a better picture of where we are financially?  
Same 2020 data and same potential 2021  
Added: The past**





# Where are we and where are we going?

Operating Margin



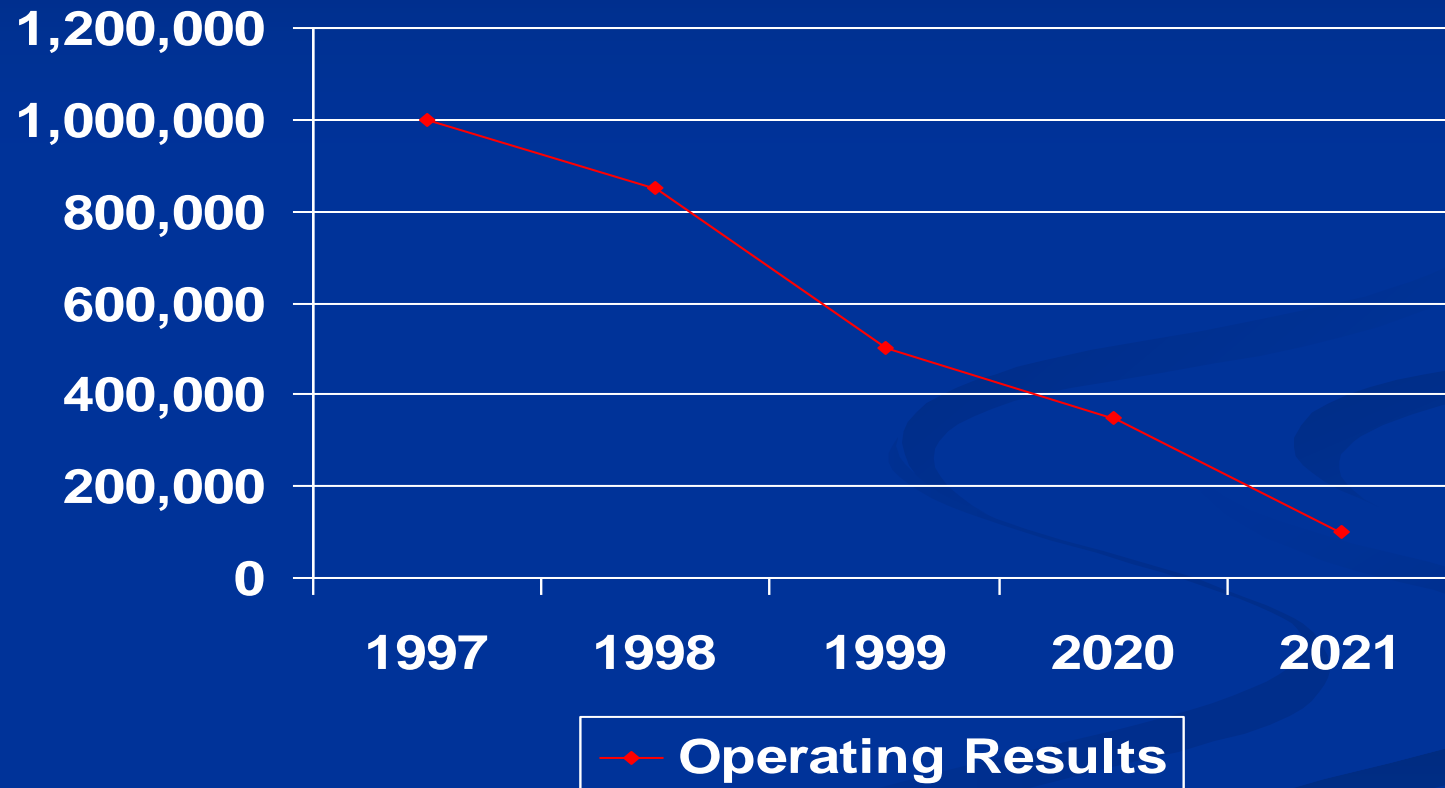
The past, the present and the potential future.

**Two major scenarios which reveal financial difficulties.**

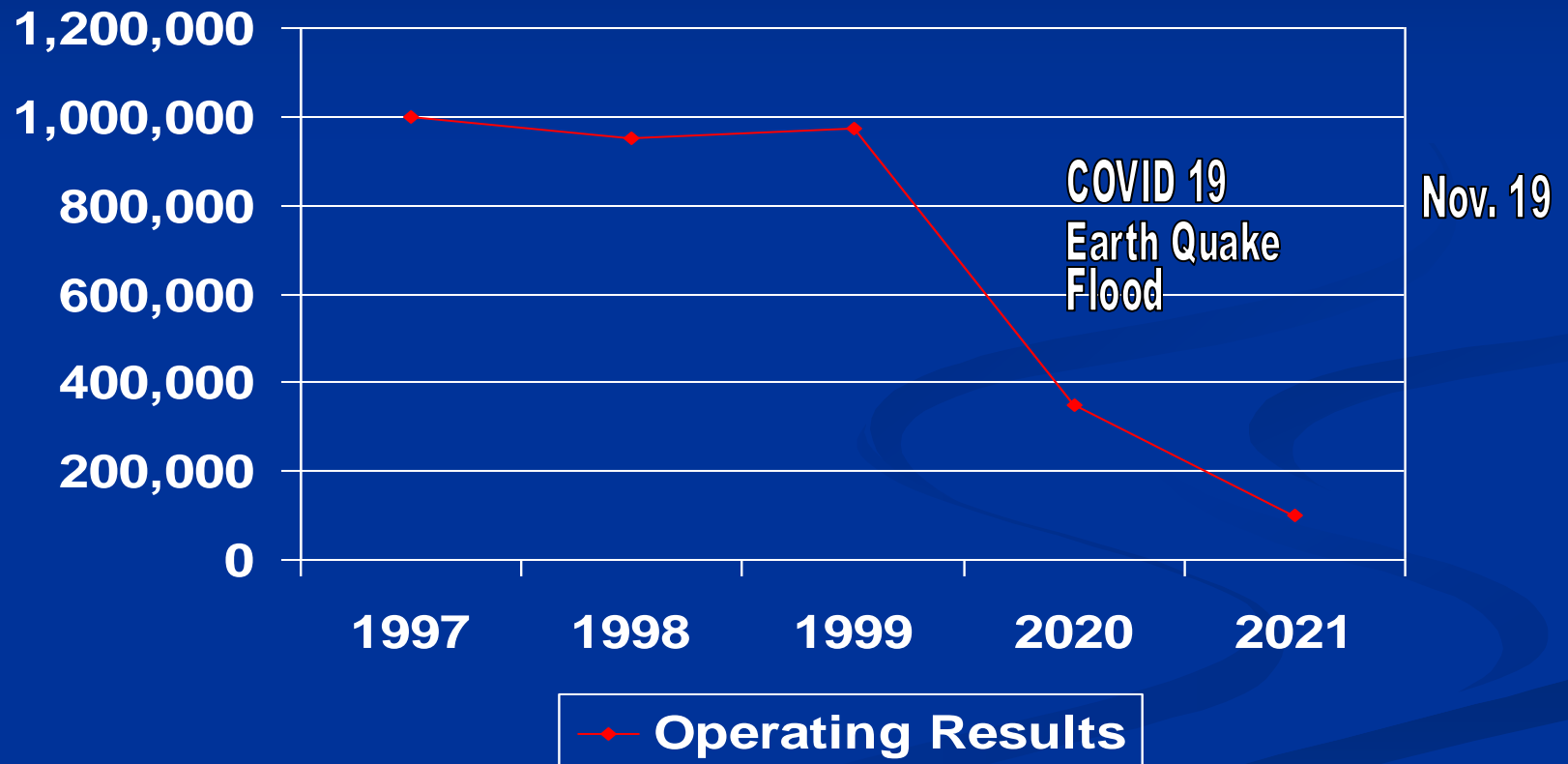
How the Board deals with each scenario could be different.

# Scenario 1

## Slow decline



# Scenario 2 Major Event



# How did we get there and what are we going to change?

- In hospitals when there is a sentinel event, patient death, permanent harm or temporary harm, a committee is called to determine the root cause of the event and the corrective action.
- It is not meant to place blame, but to prevent it from happening in the future.
- In a hospital when there is a major financial problem the Board needs to determine the root cause and the corrective action.

# How did we get there?

## What are we going to change?

- Poor Board decisions?
- No Board meetings?
- Major event? No contingency plans? No insurance?
- Poor overall governance?
- Poor budgeting?
- Conflicts of interest?
- Not using the concept of “situational awareness”?  
Looking at one year only. Not looking at the past, the present and the potential future.

**Now we understand where we are,  
how we got there and what changes  
we need to make to prevent going  
there in the future, the next  
questions for the Board are:**

Where do we want to go?

How are we going to get there?

**The answer:**

**Develop a plan and insure that it is implimented.**

# Who initiates the turn around?

- “When an organization's monthly or yearly financial statement indicate **operating deficits**, the controlling **board** or executive committee shall take immediate steps to address the situation.”

NAD Working Policy S 09 20

Watch the trend. When you have an operating deficit it could be too late.



# Who initiates the turn around?

- “When any institution or organization shows in its monthly or yearly statements that it is **not operating within its income**, it is the responsibility of the committee or **board** that directs the organization to take immediate steps for correcting the situation.”

IAD Working Policy S 40 20

Watch the trend. When you have an operating deficit it could be too late.

# The Process

## Process A

- The Board initiates and appoints an oversight committee.
- Administration develops with input from the Board appointed committee.
- Board approves
- Administration implements
- The Board committee monitors.

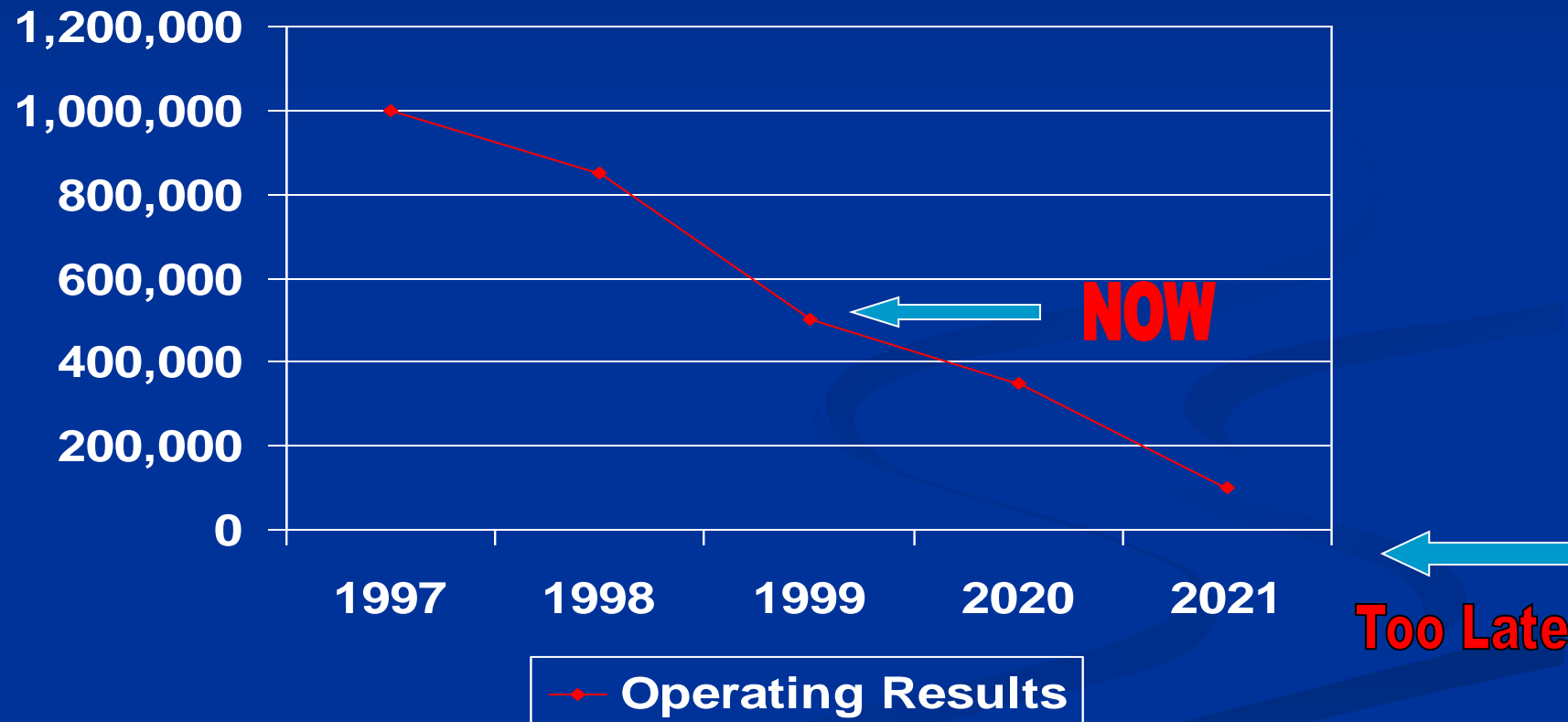
## Process B

- Administration initiates.
- Administration informs the board and the Board appoints an oversight committee.
- Administration develops with input from the committee.
- Board approves.
- Administration implements.
- The Board Committee monitors.

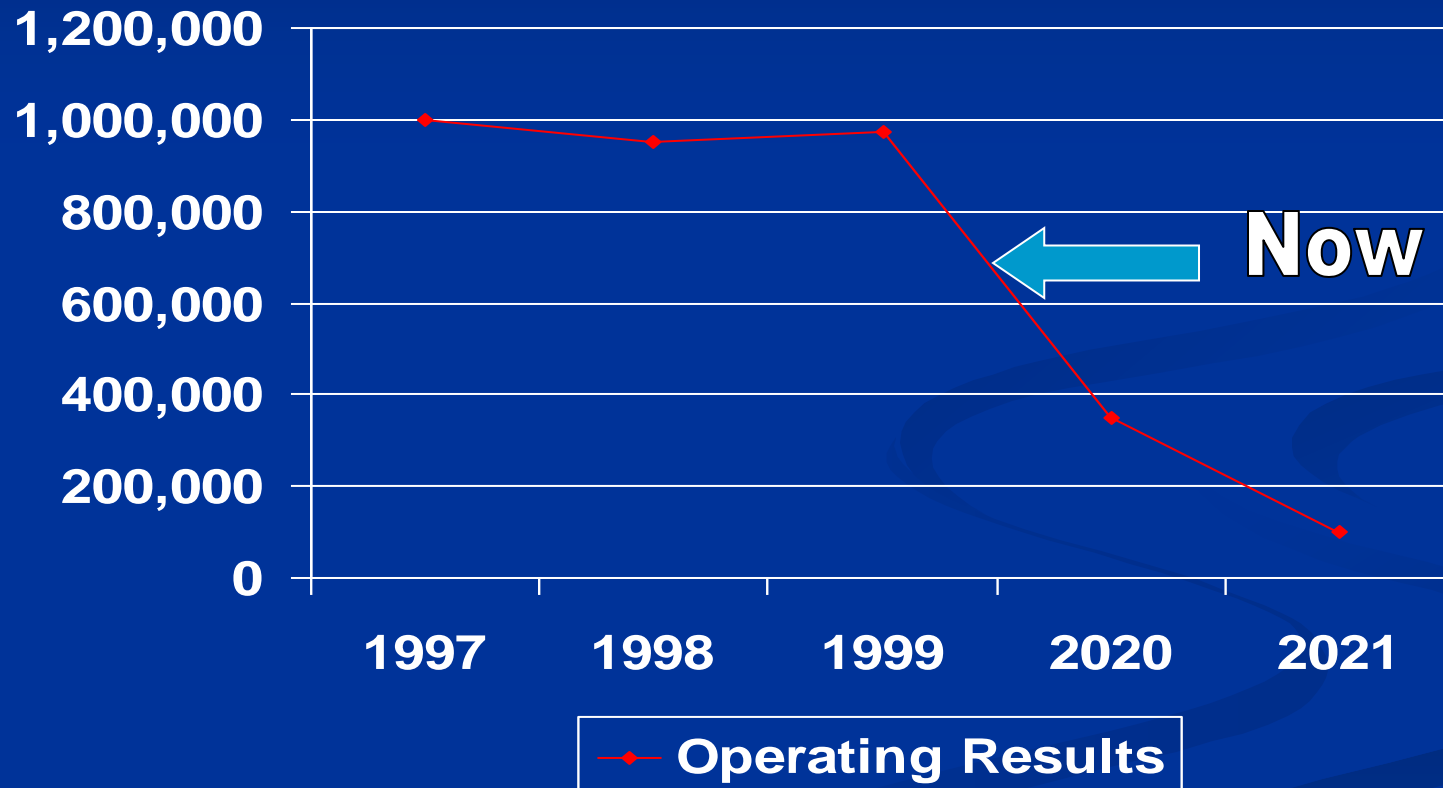
# When do you initiate a turn around plan?

- The earlier the better.
- You do not wait until there is an operating loss.
- If you use situation analysis, with trends, you will receive early warnings that changes must be made.

# Example of early warning



# Example of major event.



## **Ten key elements of a turn around plan.**

1. The plan must be in writing. Facts and assumptions will change and the plan may need to be altered.
2. Decisions must be made and implemented.
3. There must be a tracking system which accurately tracks progress.

## **Ten key elements of a turn around plan. Cont.**

4. The plan must be a multi-year plan.  
(I recommend a least 3 years).
5. The plan must support the mission  
and the strategic plan of the  
institution.
6. The process used to develop the plan  
must look at all areas and be  
perceived as fair.

## **Ten key elements of a turn around plan. Cont.**

7. The process must look realistically at revenue enhancement and at cost reduction.
8. There must be a decision making process which is credible, data driven, supported, empowered and has individuals willing to act.



# Ten key elements of a turn around plan Cont.

9. There must be a carefully thought out communication plan.

10. Prayer is critical.



# Pray Vs Action

- “He who does nothing but pray will soon cease to pray.”

Steps To Christ p. 101

- “It is even more excusable to make a wrong decision sometimes than to be continually in a wavering position”.

Testimonies For The Church p. 497

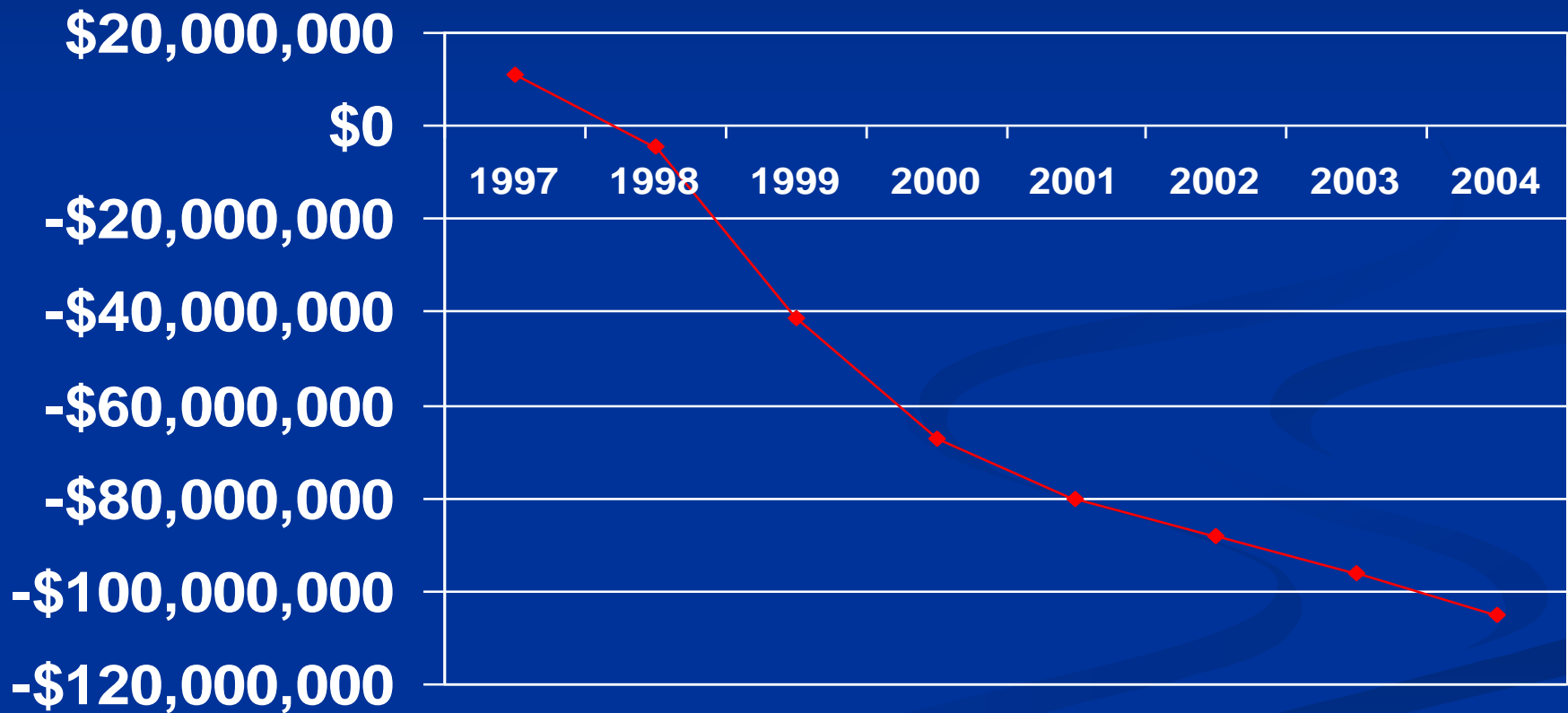
# Pray Vs Action

- “Indecision soon becomes decisions in the wrong direction.” Testimonies For The Church p. 344
- “Hasty decisions not always as disastrous as hesitating and doubting” Testimonies For The Church pp. 497-498

# Actual Case

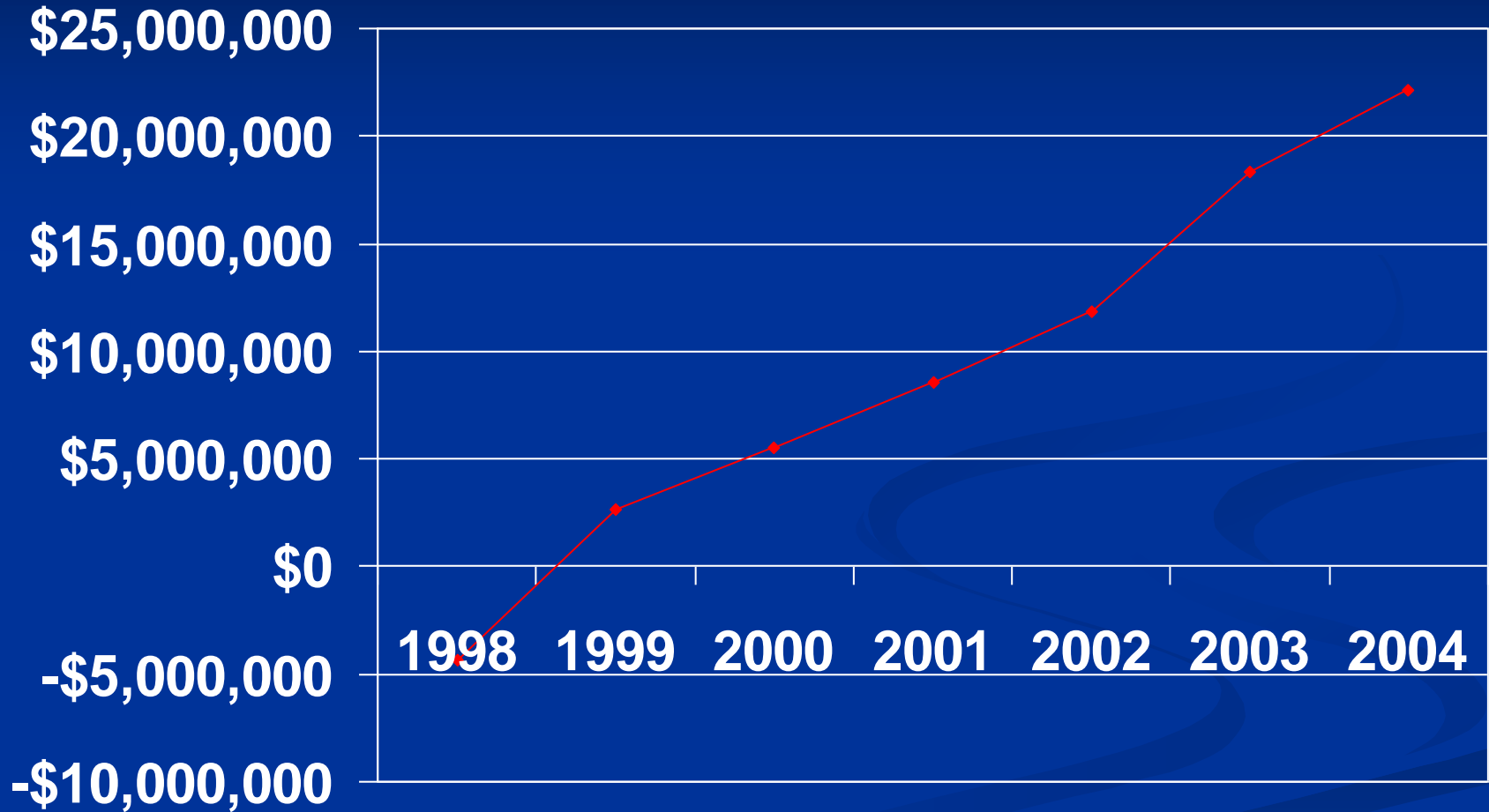
Using the 10 key elements and some of the methods that will be presented this institution was able to improve its financial position.

# “DO NOTHING” FINANCIAL MODEL



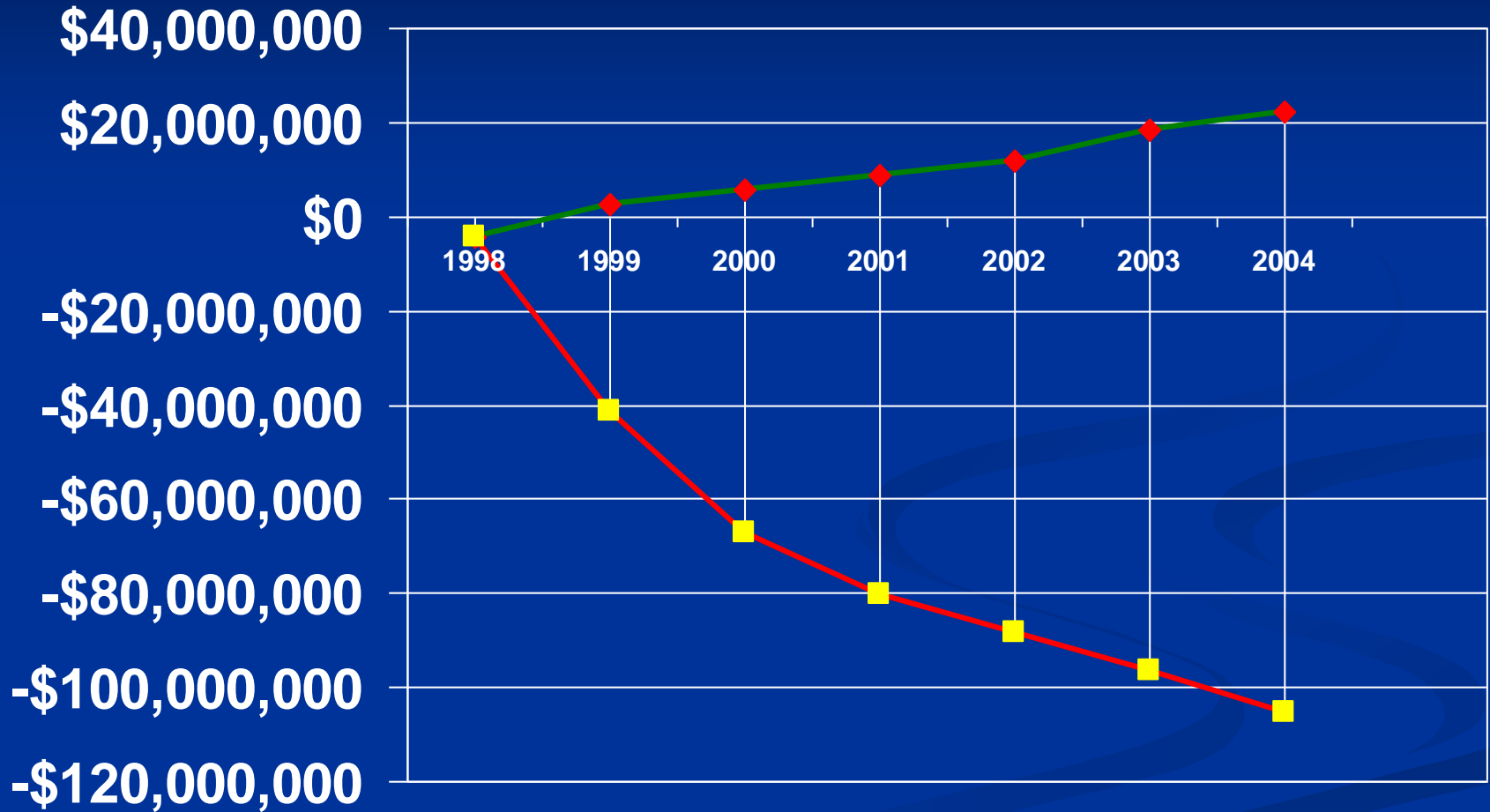
—◆— NET INCOME

# “DESIRED FINANCIAL MODEL”



—◆— OPERATING GAIN

# THE "GAP"



◆ DESIRED    ■ DO NOTHING

# THE RESULTS



◆ DESIRED GAIN    ■ DO NOTHING    ▲ ACTUAL GAIN



# Where Do We Want to Go?

## Establish a Financial Goal

1. Cover all operating expenses.
2. Service all debts.
3. Have an operating gain of 3%.
4. Build a 6 month reserve fund.
5. Get current and stay current with all suppliers.
6. Get current on preventive maintenance.

### The Financial Goals

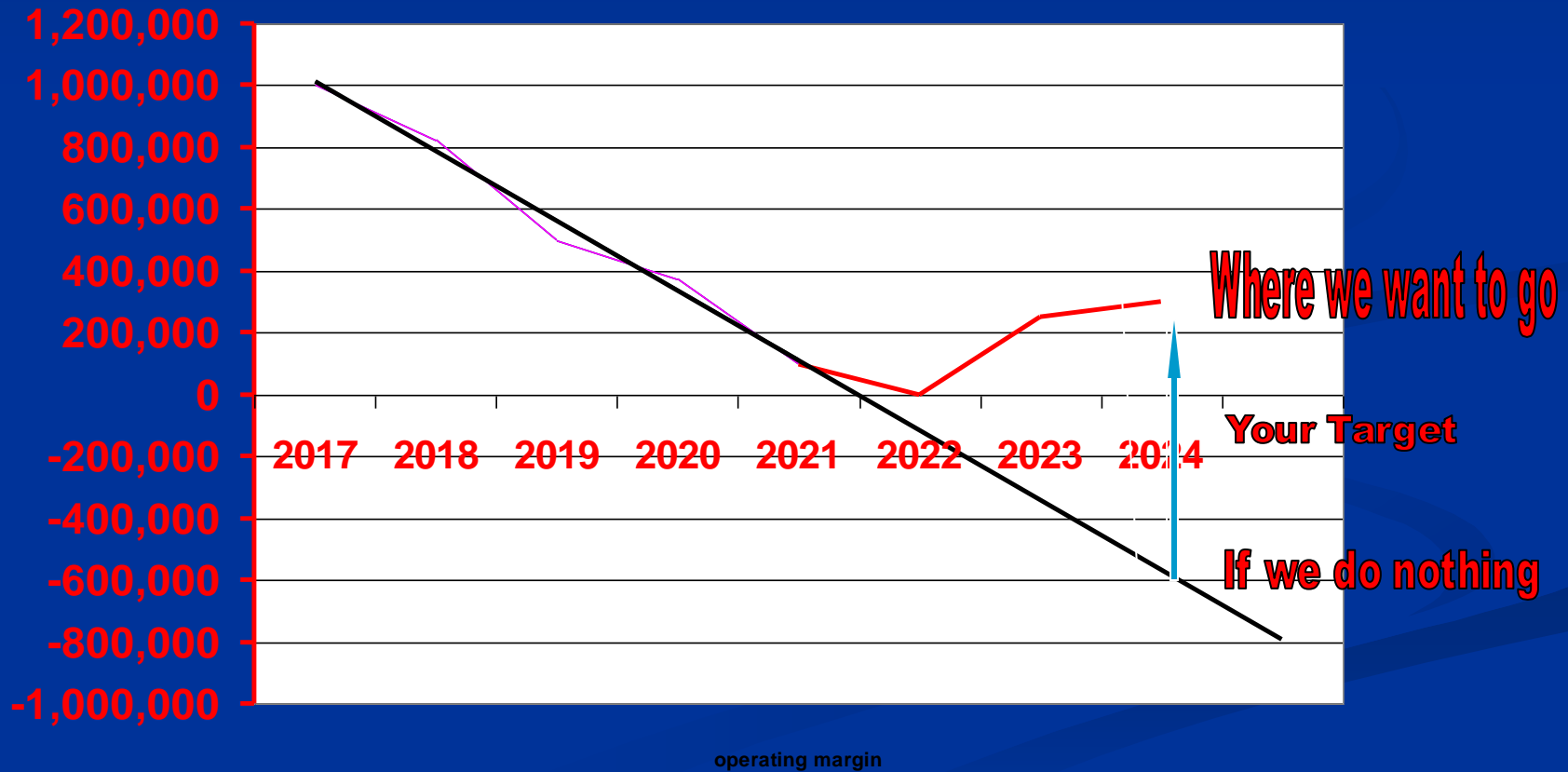
200,000 for year 1 of the plan.

400,000 for year 2 of the plan.

900,000 for year 3 of the plan.

# Where do we want to go? If we achieve our goals.

## Operating Margin



# Objectives

## Six questions for the Board.

1. Where are we financially and where are we going?
2. How did we get there?
3. What are we going to do to insure we don't go there in the future?
4. Where do we want to go?
5. How are we going to get there?
6. How are we going to survive during the plan implementation?

# How Are We Going to Get There

## 7 Strategies

- Different Laws.
- Different Cultures.
- Different Situations.
- All have been used in hospitals.

How are we going to get there?  
Income strategies.

1. Contract Compliance
2. Lure The Physician
3. Donations
4. Watch Inflation

How are we going to get there? Cont.

## Expense strategies

5. Right Size The Organization

6. Control Overtime

7. Manage Supplies/Medicines

# Strategy #1

## Contract Compliance



**Read and Understand**

# Revenue Management





# Contract Compliance

- Must list the type and quantity of medicines given.
- Must List the specific laboratory test given.
- The physician must submit with the bill the medical summaries.
- Bills must be submitted within 90 days of the dismissal.
- Readmission for the same medical problem within 30 days of dismissal is not covered by this contract.

# Common Contract Compliance Problems

- No inflation clause.
- Billing improperly.
  - ✓ Include all items
  - ✓ Bill timely
  - ✓ Include physician notes
- No Collection process.

# Strategy # 2

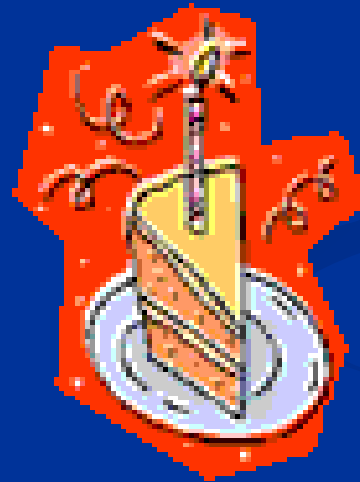
## Lure The Physician



Who decides which hospital a patient will go to for a procedure?

# Lure the Physician

## DOCTOR'S



## **Lure the physician.** Cont.

### **An current example in an SDA hospital.**

The Hospital has sever financial difficulties.

CMO meet with numerous local physicians and asked them if they would start bringing their patients to the hospital.

Physicians said yes they would if certain changes were made at the hospital.

The cost of these changes were determined and the changes prioritized.

Funds are being sought to make the necessary changes.

**Where will you get these funds?**

# Strategy # 3

## Donations

US Donations to charities in 2018  
\$427.71 Billion

80% from individuals

[Givingusa.org](http://Givingusa.org)

# Donations

“We are a Hospital in need  
please send money”.



# 7 Reasons Why Donors Give and 1 Reason They Don't

1. They're mission-driven
2. They trust the organization.
3. They get to see the impact.
4. They have a personal connection to the cause.
5. They want to be part of something.
6. You've caught their attention.
7. They want tax benefits.

Source: Survey of 3000 donors reported by [networkforgood.com](http://networkforgood.com)

# #1 Reason Why Donors Stop Giving

They don't know how their gift  
is being used.

# Donations

## ■ Information About The Hospital

- Functional Board
- Financial Statement
- Audited Financial Statement
- Mission
- Planning

## ■ A Case Statement

## ■ Thank You

## ■ Constant Communication

# Strategy #4

## Watch Inflation

Source 2020 The Globaleconomy.com

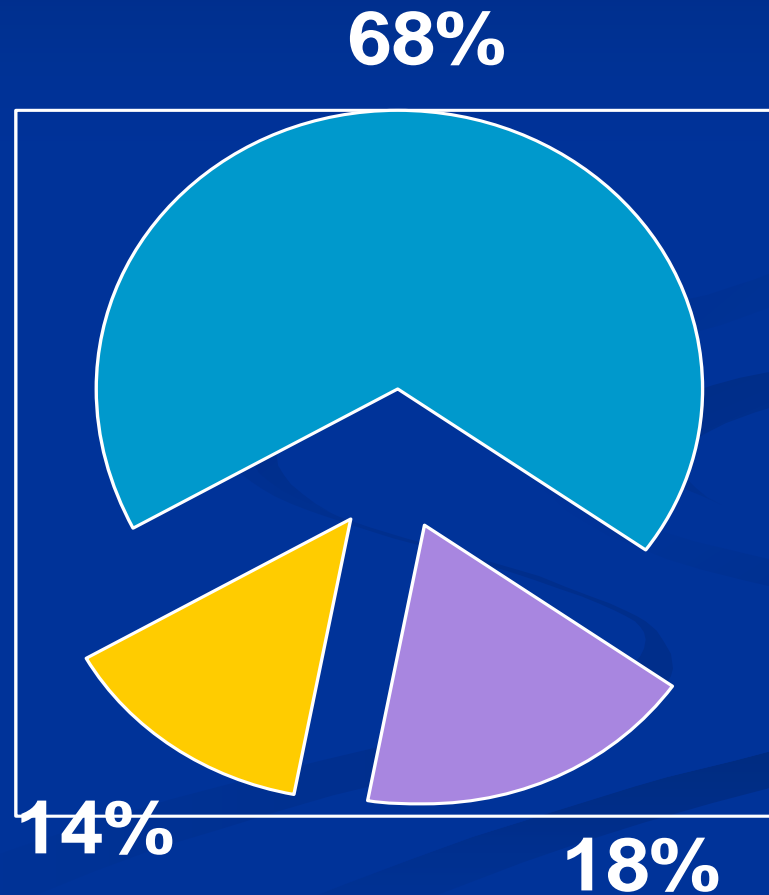
■ Haiti	22.8%
■ Zambia	15.7%
■ Ghana	10.0%
■ Malawi	8.6%
■ India	6.6%
■ United States	1.2%
■ Brazil	3.2%
■ Bangladesh	5.7%
■ Honduras	3.5%
■ Russia	3.4%

# Effects Of Inflation Over Time.

	2018	2019	2020	2021	2022
Inflation		3%	3%	3%	3%
Income	105	105	105	105	105
Expenses	100	103	106.09	109.27	112.55
Profit/(loss)	5	2	-1.09	-4.27	-7.55
Profit Margin	4.76%	1.9%	-1.04%	-4.07%	-7.19%

# WHERE ARE THE EXPENSES?

Source Statista



# Strategy # 5

## Right Size The Organization

How many staff do you need  
in each department?

# Right Size The Organization Cont.

What is the right size?

1. External bench marks:

a. Commercial data.

FTE's per occupied bed: Average about 5 (Source OPTUM)

b. Government guidelines.

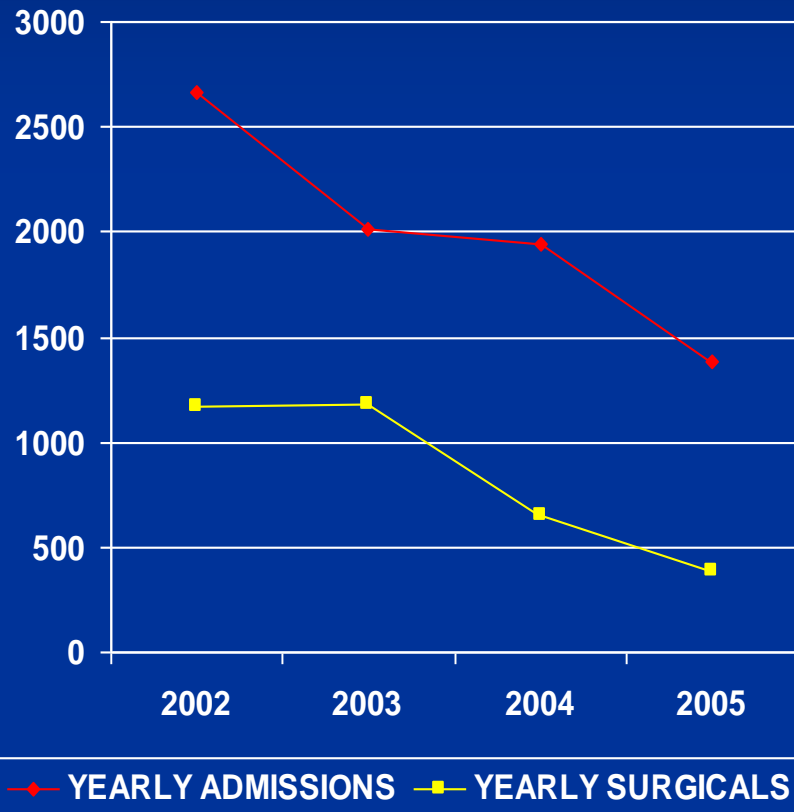
c. Comparisons with other systems hospitals.

2. Internal bench marks:



# Internal Bench Mark

## What Are These Charts Telling Us?



# How Do Select Which Employees Are Let Go?

Process must be fair and perceived to be fair.

Process must be legal.

## Criteria:

Seniority

Annual Evaluations

Skill level

Education

Training

# Do We Tolerate Staff That Are:

- Inefficient
- Abusive To Patients and other staff
- Negative Attitude
- Low Quality Of Work
- Dishonest

# Fewer Might Be Better

“It is far easier to allow matters in our important institutions to go in a lax, loose way than to weed out that which is offensive, which will corrupt and destroy confidence and faith. But it would be far better to have a smaller number of workers, to accomplish less, and as far as possible to have these who are engaged in the work truehearted, firm as rock in principle, loving the whole truth, obedient to all the commandments of God”

# Fewer might be better. Cont.

- Research by Yale SOM's Amy Wrzesniewski.
- Internal motivation brings better performance than external motivation.
- “Helping people focus on the meaning and impact of their work, rather than on, say, the financial return it will bring may be the best way to improve not only quality of their work but also—counterintuitive though it may seem—their financial success.”

# Cost/Saving of Right Sizing

- Hospital is over staffed by 20 employees.
- Average annual salary and benefits of the 20 employees is 9,000. ( 180,000 per year)
- The cost to terminate by law is 3 months salary and benefits.
- The cost would be 45,000; payable upon termination.

# Savings From Right Sizing

- Spend 45,000 save 180,000 per year.
- Where do we get the 45,000?
- Do the math and borrow the money.
- AHI, Sponsoring organization, local bank, other system institutions.
- Pay back the loan using 50% of savings. Pay back of the loan would be 6 months.
- Savings for the institution: 45,000 for the first 6 months and 180,000 per year after that.

# Strategy # 6

## Control Overtime

- About 10% of a provider's labor budget
- Labor 63% of your costs
- No overtime would save about 6%
- Labor \$500,000 per year-save \$30,000



# Control Overtime Cont.

- Have clear policies and procedures
- Who can approve overtime
- Set goals
- Track overtime and compare with goals

# Strategy # 7

## Manage Supplies/Medicines

- 22% of expenses
- Who is making the decisions on supply and medicine usage?

# Manage Supplies/Medicines

- Inventory control
  - Stealing
  - Outdated
  - Too Much and Too Little
- Gain sharing
  - Who is making the decision on usage?
  - Give an incentive for efficiencies

# Income

	Year 1	Year 2	Year 3
Bill Supplies	30,000	45,000	50,000
Include Physician Notes	50,000	65,000	70,000
Renegotiate Payer Contracts	0	130,000	200,000
Donations	50,000	0	0
Total	80,000	240,000	320,000

# Item Assignment

	Assigned To
Bill Supplies	CFO
Include Physician Notes	CMO
Renegotiate Payer Contracts	Outside Consultant
Donations	Board Chair

# Reduce Expenses

	Year 1	Year 2	Year 2
<b>Right Size the Organization</b>	100,000	200,000	200,000
<b>Control Overtime</b>	25,000	30,000	30,000
<b>Stop Non-Mission Activities</b>	20,000	30,000	30,000
<b>Terminate Administration's Perks</b>	5,000	7,500	7,500
<b>Total</b>	150,000	267,500	267,500

# Reduce Expenses Assignment

	Assigned To
<b>Right Size the Organization</b>	HR Director
<b>Control Overtime</b>	CFO
<b>Stop Non-Mission Activities</b>	CFO
<b>Terminate Administration's Perks</b>	Board Chair

# How Are We Going to Survive?

## Cash Flow Plan

During the planning and implementation of the turn around plan there will not be enough cash to support all of the incurred expenses.

A cash flow plan must be prepared.



# Cash Flow Plan

1. Determine how much cash will be available each month.
2. Calculate the monthly cash needed.
3. Determine the monthly cash shortage.
4. Prioritize the cash flow needs.

The highest priority will be those payables that if not paid will shut the institution down.

Payroll

Suppliers

Contract physicians

# Cash Flow Plan Cont.

## 5. Seek Additional funds.

Line of credit.

Donations.

## 6. Communicate with suppliers, debtors, utilities, etc.

# Major Factors For Success

1. A well thought out plan in writing.
2. A group of individuals who can make a decision and get it done.
3. The proper Board oversight.
4. Prayer and being guided by the mission of the institution.

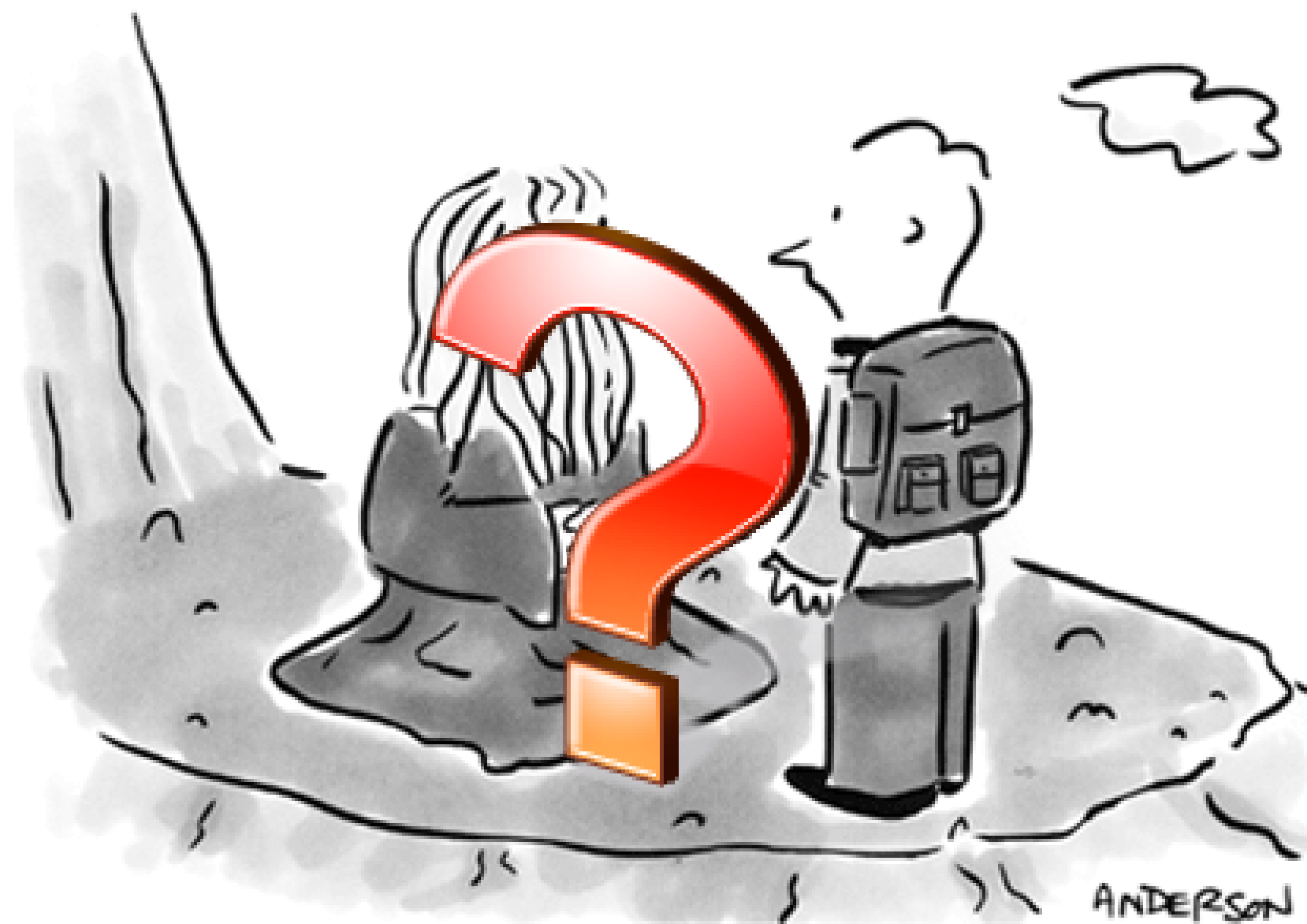
# Major causes of failure

1. The plan is not clear and understood by the key individuals.
2. No one is held responsible.
3. Key individuals cannot make decisions and accomplish the difficult tasks.

# Summary

## Six questions for the Board

1. Where are we financially and where are we going?
2. How did we get there?
3. What are we going to do to insure we don't go there in the future?
4. Where do we want to go?
5. How are we going to get there?
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"I don't have any answers. I'm a non-prophet."