How is the Role of a Healthcare CFO Changing?

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The Affordable Care Act (ACA) changes reimbursement realities and therefore fundamentally impacts the role of the healthcare CFO as the financial safe keeper of the organization. These changes require a CFO to rethink financial statements and the organizational controls that need to be put in place to drive fiscal responsibility in their organization given these new realities. Finally, it will require a CFO to assess new margin risks and develop steps to be able to measure and mitigate these risks.

Historically, the CFO role was largely focused on corporate finance activity regarding capital availability to the organization, mostly a balance sheet activity, as well as establishing fiscal controls for the cost area of the income statement. Revenue generation may have been impacted via contract management, but the traditional business area of top-line revenue growth, aside from capital allocation, was left largely to the CEO and CMO via physician recruiting and service-line management.

Since revenues have primarily been a function of services rendered, the actual generation of revenue has not been traditionally seen as a key CFO role. The largest lever for a CFO in the past was the budgetary cycle and subsequent organizational adherence to that budget. Even today, many healthcare organizations are still managed to a budget centric, cost-plus mentality when it comes to driving financial performance.

With the implementation of value-based reimbursement linked to quality indicators, the organization's top line revenue is now substantially at risk (+/-8%), a much higher revenue volatility than historic risk due to volume fluctuations. Revenue and cash are now directly tied to clinical processes and quality measures, an area traditionally off-limits to a CFO, creating a major concern for any CFO due to the new financial exposure. With the passing of MACRA (Medicare Access and CHIP Reauthorization Act), an additional -9% and up to +27% of top line revenue risk has been added, leading to a total top line risk of - 17% up to +35%; a monumental increase that is changing the role of a healthcare CFO.

4 Realities That Are Changing The Role of a Healthcare CFO:

- The historic role of a CFO being reasonably contained to capital availability and cost and budget management is quickly changing.
- Top line revenue risk is becoming a key item that must be actively managed by the CFO. It requires a CFO to deeply engage in many cross-functional efforts such as clinical quality, revenue cycle, and population risk management.
- Budgetary measures that were the key fiscal control mechanisms in an organization are no longer sufficient. Revenue risks have to be prepared for in the operating model of the future and P&L responsibility must be driven throughout the organization.
- Post-acute care episode and population risks are becoming key financial drivers for the organization. A CFO will need to learn how to make capital allocation decisions to reflect these risks, at times with imperfect data due to the lack of precedence in managing these risks.