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Hospital Fitness: Strategic checks and balances must be on call

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While some Houston hospitals show impressive growth, others are being shuttered.

"The reasons for distressed hospital operations are many and can relate to both internal and external factors," says Randall J. Zarin, senior manager in the Health Care Group at UHY Advisors TX LLC.

"In today's turbulent economy, financially distressed organizations must acknowledge the scope of the problem and face facts," he says. "Quick fixes are not adequate. Steps must be taken with sound leadership and accountability."

Zarin, a former hospital executive with expertise in hospital and health care administration, operations and strategy, notes that new projects are being developed by the major hospitals all across the city and into Katy, Pearland, and Sugar Land – hundreds of millions of dollars worth of construction and expansion.

At the same time, Houston has seen the



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closure of Town and Country Hospital, River Oaks Hospital and the struggles of others all within the past year.

"Whether ownership is for-profit or not-for-profit, hospitals are complex

business enterprises that require a strategic game plan of checks and balances to ensure cash flows support operations," Zarin says. "Declining operations, reimbursement challenges and regulatory changes can lead to cash flow losses, and in some cases, bankruptcy or closure of the facility. Environmental and industry pressures can also impact the financial condition of hospitals."

Zarin notes that most hospitals receive more than half of their income from Medicare and Medicaid and further reimbursement cuts are likely.

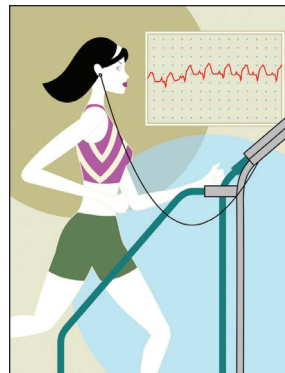
"As the economy worsens, hospital balance sheets are hemorrhaging due to self-pay, slow-paying patients and low reimbursement," he says. "Now, Wall Street is also affecting the bottom lines. The ailing markets are sapping the equity returns that hospitals have traditionally used for capital projects."

Zarin lists six factors hospital administrators should consider when facing a turnaround situation and trying to develop a well-balanced strategy:

- **Partner with physicians.** "Any strategic planning process at the hospital needs to include the physicians. The medical staff will assist the executives in determining which service lines are available for growth and which are worth investment."

- **Governance.** "The greatest share of responsibility for a hospital's welfare rests with its board and management, who should help craft a strategic plan to meet market needs, communicate regularly with the community, maintain excellent physician relationships and install an effective physician recruiting program. Most important, members should be prepared to take action if the hospital's performance slips."

- **Ensure accountability.** "Hold leaders and managers accountable for their budget with continuous monitoring of operations and performance improvement."



- **Improve revenue cycle.** "If revenue is lost due to process issues and cash is tied up in claims and/or collections, that cash is not available for other uses. Review processes within the revenue cycle step-by-step, evaluate any managed care contracts and

review appropriateness of the charge masters."

- **Grow volume and market share.** "Many factors, including bad publicity, can prompt physicians to begin resisting normal patterns of directing patients to the hospital. Meeting the community's needs and developing centers of excellence will help grow market share by providing quality service, developing physician confidence in the facilities and increasing patient loyalty."

- **Solid budgeting.** "Hospital budgets need to be continually fine-tuned. Budgeting must reflect reality and planning must build an understanding of cash and liquidity. Effective financial planning should include a study of any covenants to ensure compliance."

Zarin stresses that "accurate and timely information is critical, and it must be collected and analyzed by the board and management team. The plans must be flexible so that if goals are not met, additional interventions can be developed and implemented."

Successful turnarounds, he says, require "strong leadership, expert and comprehensive guidance, resources, and well executed and monitored plans."

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