

Firm Financial Position or Not?

Introduction:

In this Learnscape, the Student plays the role of a recently appointed board member to the Hospital System who had previously worked at the Hospital. The Student must help to determine whether the Hospital should consider a bond to finance a major hospital renovation. The Student needs to prepare a position on this critical financial determination for an upcoming Board meeting where all sides will be discussed.

As the Learnscape opens, the Student receives an offer for help from friend and former CFO of the Hospital system, Cheryl Noki. She knows that a lot has been dumped on the Student and feels that they may need assistance in sorting and understanding the information. The Student explores the use of a balanced scorecard and dashboard reporting, and a position starts to take shape.

The student meets privately with the Chairman of the Board, though, and after discussing the primary financial objective of the hospital system, is asked to come up with key financial performance drivers and measures to help the board in their determination. Two other board members come to the Student to plead their cases. One of them asks that the Adjusted-Discharge Measures of Cost be considered, too, while the other pushes for a newer method called the Hospital Cost Index, and they briefly argue the difference.

In the end, with the help of Cheryl, the Student must make the best determination on whether the Hospital is strong enough financially to take on this new renovation bond, while addressing the particular points brought up by the board members. A natural assessment with Cheryl will help the Student test knowledge learned in the course of the Learnscape and help the Student have a successful meeting with the Board.

Characters:

1. Cheryl Noki
2. Donald Bailey
3. Natalie Jones
4. Casper Diggs

Locations:

1. Hospital Courtyard
2. Attorney Office



JBL - Health Care Finance

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3. Conference Room
4. Student's Home
5. Coffee Shop
6. Cafeteria

Scene 1: Meeting Your Mentor

As this scene begins, the Student runs into Cheryl, the mentor, in the hospital courtyard, where they talk about the board and the renovation bond.

Location	Hospital Courtyard
Scene setup	Student faces Cheryl, who is turned slightly towards the student while sitting on the bench.
On-screen characters	Cheryl Noki
Off-screen characters	None

On-screen Text: You run into former CFO, Cheryl in the hospital courtyard...

CHERYL: Hi there! I haven't seen you in a while. What are you up to?

STUDENT: Hi, Cheryl! It has been a while. Did you know I was asked to join the Board?

CHERYL: No, I didn't! That's great to hear.

STUDENT: Well, I had been contracting with the hospital system, specializing in labor law, a few years back.

CHERYL: I know! I was the one signing your checks, remember? <smiles>

STUDENT: Of course, that's right. What are you doing now?

CHERYL: I'm working as an adjunct at the University. I just couldn't retire yet, had too much time on my hands. So, did you start yet? I heard the Board is considering a huge renovation for the hospital.

STUDENT: I've only been to an orientation, but I have to vote on that renovation bond at the next meeting. And I'm still a little fuzzy on the financials.

CHERYL: That's a really big decision for your first meeting! What kind of information did they send you? And how much time do you have to go through it?

STUDENT CHOICE 1: They sent over monthly income statements, a balance sheet, and a year's worth of actual-to-budget performance comparisons around financial ratios that they picked.

STUDENT CHOICE 2: The meeting is tomorrow. To be honest, the information just looks like a mass of endless figures. I can't seem to digest it all.

NOTE: Student must choose both options to continue.

CHERYL RESPONSE 1: That's typical financial information for this type of review. But, labor costs are the hospital's biggest expense. I'm sure they're focusing on those ratios. You know, that's probably part of the reason they picked you to be on the board – your labor expertise.

CHERYL RESPONSE 2: I can help you with that information – I may even have created some of those budgets myself.

STUDENT: It is such an honor to be picked for the Board. I just don't want to let them down on my first task.

CHERYL: I understand. Why don't I swing by your office later to take a look?

STUDENT: If you don't mind? That would be great. I'm going back there now, so just come by when you can.

CHERYL: Okay. Not a problem. I'll meet you at your office. You're still in the same location, right? In the building down the street, between the dentist and the tax accountant?

STUDENT: Yes, sometimes I feel like I'm in pain alley. All we need is a mortician at the end and we're set.

CHERYL: Funny! See you later!

Scene 2: Sorting through the Financials

In this scene, the Student discusses two tools to help sort through the financial information given to the Student for background on the renovation bond vote.

Location	Student's Office
Scene setup	Student faces Cheryl who sits in the chair across the desk.
On-screen characters	Cheryl
Off-screen characters	None

On-screen text: Meeting Cheryl at your office . . .

CHERYL: Hey, nice office! Looks like you're doing really well for yourself.

STUDENT: Thanks. At least this organized mess of papers means I'm busy with work.

CHERYL: I've said the same thing before looking through my reports! So, let's dive into the financials, okay?

STUDENT: Great. I think I understand the basic concepts, but to be honest, it seems like there is some redundant information, and a few items don't even seem relevant to the decision.

CHERYL: I know how that is. It's like people are in love with technology, and they use applications to generate all this data, but it doesn't seem to mean anything. It's just a bunch of figures.

STUDENT: So, how do you even know what to focus on?

CHERYL: I usually use a couple of reports that provide information on a few key, performance areas. I choose a couple of key indicators – you know, metrics, or how we measure performance— and then focus on those. If we're lucky, we'll be able to figure out what is most relevant to this decision.

STUDENT: Great. Now, *that* sounds like a good use of technology. So, what are these reports?

CHERYL: I use one called a balanced scorecard, and then, the dashboard report.

STUDENT CHOICE 1: Okay, I'll bite. What is a balanced scorecard?

STUDENT CHOICE 2: Dashboard report? Does this go next to my stereo?

CHERYL RESPONSE 1: A balanced scorecard filters and groups information critical to decision making. The reports provide information only on the key attributes affecting performance. So, the hospital's senior leadership – namely the CFO as we're looking at financials – would identify a limited number of measures, and attach targets to them, to see whether current performance meets expectations.

CHERYL RESPONSE 2: Funny, no! Dashboards are a subset of balanced scorecards. The report answers questions like, "What is most important for the hospital's success?" What are our

critical performance drivers?” “How do we measure those drivers? Do we have benchmark data for them?”

STUDENT CHOICE 1: So, what you’re saying is we will need baseline data and current data for the financial targets that most directly affect our position, and compare that data, to decide if we should do the renovation?

STUDENT CHOICE 2: What I hear you saying is that we will need to decide upon key performance areas and set benchmark data to measure against future performance to determine our position and if we should vote for the bond.

NOTE: Student can choose EITHER option to continue.

CHERYL RESPONSE 1: Exactly. What we need to do first is find out if the performance areas they chose to generate data for are relevant and focus on their bottom line financial position. The most important thing to determine is if they are in the position of achieving sustainable growth if they take on the new debt. If they provided data around these key indicators, I can just run the reports and have a pretty good idea from there.

CHERYL RESPONSE 2: Well, you have the concept right. But, the benchmarks would already need to be in place. What we’re measuring then, is current performance against those benchmarks. From there we can see whether or not the system can achieve sustainable growth while taking on this debt.

STUDENT: Okay, I see. Do you know what the key performance areas should be?

CHERYL: Basically, I would have to determine the critical drivers of financial performance. I knew these when I left, so I should be able to figure it out quickly.

STUDENT: I really appreciate your help. What do you want me to do?

CHERYL: I’ll tell you what. I’ll run the data through a dashboard reporting system and email you the results later tonight. You can review them through your perspective on labor costs, and then let me know if you have any questions. Sound good?

STUDENT: Perfect. Thanks so much, Cheryl. They’re offering a free cleaning next door for new patients if you have time on your way out.

CHERYL: The dentist or the tax accountant? <laughs> Either way, I'll pass! Look for that email later, okay? Bye!

Scene 3: Reviewing the Report

In this scene, the Student gets an email from Cheryl containing the dashboard report, along with some notes. While reviewing it, the Student gets a call from Board Chairman, Donald Bailey.

Location	Student's Home
Scene setup	Student sits the coffee table. Cell phone is on table, and lights up.
On-screen characters	Donald Bailey
Off-screen characters	None

On-screen text: Crunching the numbers that night at home . . .

NOTE: Zoom into the computer, where the Student can click on the email, and then click on the attachment to review the reports.

EMAIL	Hi there, Believe it or not, this was fun for me! I added some comments where I thought it would help. Let me know if you have any questions. Otherwise, please let me know how the Board meeting goes! All my best, Cheryl
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On-screen text: Next, you get a call from Donald Bailey, the Chairman of the Board . . .

<Phone rings, student clicks on phone to answer.>

STUDENT: Hello?

DONALD: Hello! Donald Bailey calling. Just checking in. Did I catch you at a good time?

STUDENT: Yes. I was actually just looking over some reports, and getting more familiar with the numbers.

DONALD: Good, good. I was wondering if you might have time to meet for coffee in the morning? I'd like to talk to you about a few things before the meeting.

STUDENT: Yes, of course! How about 7:30 at the Corner Café?

DONALD: That works. See you then!

Scene 4: Meeting with the Chairman

In this scene, the Student meets Donald Bailey for coffee, and he talks about the primary financial objective of the hospital system. He asks the Student to come up with a model to show key financial performance drivers and measures to help the board in their determination of financial stability.

Location	Corner Café
Scene setup	Donald sits across the table from the Student. The phone is on the table, as at the end of the scene, the Student texts Cheryl to ask about meeting for lunch.
On-screen characters	Donald Bailey
Off-screen characters	None

On-screen text: Getting some insight from the Board chairman . . .

DONALD: I'm really glad you could meet me this morning.

STUDENT: Of course. Good to see you.

DONALD: You too. So, I'll get right to the point, as I'll bet you have a lot of work to do. I wanted to make sure we're on the same page before the meeting, and I need to know if you have the information you need to make a decision about the renovation bond. Have you had time to review the financials?

STUDENT: I've done an overview, and was looking for what might be the key drivers. So far, I've looked at the balanced scorecard and the dashboard report.

DONALD: Wow, very good. But, you would have to know what the objectives are in order to determine the key drivers. For example, do you know the primary financial objective for our hospital system?

STUDENT CHOICE 1: Yes, sustainable growth.

STUDENT CHOICE 2: Yes, based on the reports, I think the main driver is labor.

DONALD RESPONSE 1: You're right that sustainable growth is our long-term financial goal, but to get there, the primary financial *objective* is equity growth.

DONALD RESPONSE 2: Labor IS a key driver for financial performance, but I'm talking about the primary financial objective – two different things. Sustainable growth is our long-term financial goal, but to get there, the primary financial *objective* is equity growth.

STUDENT: That is a term I haven't heard yet. What is equity growth?

DONALD: Well, our long-term goal is to create sustainable growth. It would be great to be in a position where our assets just grow, and we're able to achieve long-term success, but it's usually not that simple. To grow, most organizations have to add new investments. I've seen some hospitals make the mistake of relying on slow growth-based assets like accounts receivable. They don't do much renovation and don't keep up with the latest equipment. Before long, their competitors have moved ahead of them, so they lose market share.

STUDENT CHOICE 1: So, the renovation bond is to ensure that the hospital system can continue to compete, and to create sustainable growth.

STUDENT CHOICE 2: I'm not sure I understand the difference between sustainable growth and equity growth.

DONALD RESPONSE 1: Right, though it is a little more complicated than that. We're looking for ROE, which is Return on Equity. This measurement is the primary financial criterion that we use to evaluate and target financial performance. ROE is our net income divided by equity.

DONALD RESPONSE 2: Sustainable growth is equity growth that has met or exceeded asset growth. To grow assets, we cannot rely simply on what the hospital takes in for services. And specifically, we look for ROE, which is Return on Equity. ROE is our net income divided by equity.

STUDENT: Okay. So can you tell me exactly what you need from me?

DONALD: What I'd like you to do is consider the primary objective, as we've discussed, and then work backwards to determine the key financial performance drivers and measures that will help the Board determine whether the risk of the renovation bond is worth it. Basically, we have to see how financially stable we are right now, and what the bond would mean in terms of our ongoing stability.

STUDENT: Perfect. I can do that.

DONALD: Great! I knew I could rely on you. I will see you tonight then, and look forward to your input.

STUDENT: I look forward to it, too. Believe me!

NOTE: The Student's cell phone appears and Student sends Cheryl a text:

TEXT TO CHERYL	<p>Cheryl – I just met with the Board chair and I need some help in a hurry! Is there any way you can meet me for lunch today? The hospital cafeteria – if you're going to be around. My treat.</p> <p>Thank you!</p>
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Scene 5: Performance Metrics

In this scene, two other Board Members, Natalie and Casper drop by unannounced. They want to meet the new Board member before the next meeting, and wish the Student well. They ask about performance metrics. At the end of the scene, the Student gets a text reply from Cheryl that lunch is a go.

Location	Attorney Office
Scene setup	Student is at desk and Natalie and Casper come in from the left and stand in front of the desk.
On-screen characters	Natalie Jones, Casper Diggs
Off-screen characters	None

On-screen text: Later in the morning, some unexpected visitors . . .

NATALIE: Hi there – sorry to interrupt! We wanted to meet you before the next meeting. I’m Natalie Jones, and this is Casper Diggs. We’re on the Board as well.

CASPER: Good to meet you.

STUDENT: Nice to meet both of you.

NATALIE: So, what do you think about this renovation bond? I’ve been trying to review the financials. Lot of information to go through I just know that without this renovation, we’ll fall behind in the market. It’s long overdue.

CASPER: Yes, I got the huge financial package too. It’s a lot of information to go through, but I managed. You must be pretty overwhelmed, being brand new and all. It’s not always a big vote like this, with all this background stuff to go through. We usually have a few budget items, but this. . . This bond could make or break our entire system.

STUDENT CHOICE 1: Right! No pressure then. So, Natalie, how do you know the hospital will fall behind? What performance measures did you use to determine that?

STUDENT CHOICE 2: Well, I could use all the help I can get. I’m open to new ideas.

NATALIE RESPONSE 1: I’ll tell you what a key driver is – the competition! I don’t know where they got the money, but over at Lake Medical, they have all the latest equipment, and you should see the waiting rooms! Plasma screen TVs, comfy furniture, laptops, bamboo floors, skylights – I wanted to move in there myself! And they’re our main competition!

CASPER RESPONSE 2: Well, I talked to my friend who’s on a hospital board in another region, and he was telling me about this new approach to assess our position. It’s called the Hospital Cost Index, and it seems to be a better measure of facility-wide costliness. It looks at Medicare costs a couple of different ways and divides the results by the national median, adjusted for area wages. It’s more specific than the adjusted-discharge measures that we use now.

STUDENT: Sounds like something I should look into.

NATALIE: Hold on a second. All the financial information we’re looking at is based on the adjusted-discharge measures of cost. We can’t change that at this point.

CASPER: That’s not entirely true. We have the numbers. We would just have to look at them differently. The adjusted-discharge is just kind of outdated, because outpatient activity has increased to something like 50% of our total revenue, and a large percentage of those patients are through Medicare. So, if we use the all-payer mix, it will throw the numbers off.

NATALIE: Okay, you’ve already lost me. Thankfully, we have our newest Board member here to provide a fresh perspective.

STUDENT: I can check that information out as I review the drivers. I’ll run it by my personal, finance guru.

CASPER: You know, these financial records are confidential – I hope you realize that!

STUDENT: Legally, we can get expert advice on financial decisions. That is covered by our contract. We don’t really have any choice at this point, unless either of you would like to take over the research?

NATALIE: No, I’m good – really, we just wanted to stop by to meet you and wish you well on your first big meeting. Right, Casper?

CASPER: Um, yes. Sorry, just a bit overwhelmed right now.

STUDENT: That’s okay. I know the feeling. See you both tonight!

NATALIE: Definitely! Bye!

NOTE: The phone buzzes and the Student gets a reply from Cheryl.

TEXT FROM CHERYL	Hey there – sorry, didn’t hear the phone. Sure – I’ll meet you at 11:30. Looking forward to it! C.
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Scene 6: Performance Drivers and Measures

In this scene, the Student has lunch with Cheryl, and learns about performance drivers and measures, as well as the Hospital Cost Index.

Location	Cafeteria
Scene setup	Student is facing Cheryl, who sits across the table.
On-screen characters	Cheryl
Off-screen characters	None

On-screen text: Cheryl comes to the rescue . . .

CHERYL: Hey there – nothing like some last minute challenges, right?

STUDENT: You got that right – thank you so much for coming to my rescue, one more time.

CHERYL: Oh, you’re welcome – I don’t look at it that way though. I don’t know if you realize it, but I have a vested interest in the hospital system’s success. After all, they are paying my pension.

STUDENT: That makes me feel a little better.

CHERYL: So, are you ready for the meeting?

STUDENT CHOICE 1: Not really. Donald, the Board chair, asked me to come up with a model to show key performance drivers and measures.

STUDENT CHOICE 2: Not at all. I just got a visit from two Board members who were asking about cost measures – Hospital Cost Index and Adjusted Discharge Measures? I don’t have time to look at everything!

CHERYL RESPONSE 1: That’s what we had started to do when I sent you the reports. I sent you some notes on what I thought the primary issues were. In terms of a model, I can email you the performance driver model that I used in the past, and you can take a look at it later.

CHERYL RESPONSE 2: Yes, in my last year there I tried to get them to switch to the Hospital Cost Index because of the increase in Medicare outpatient billings, but there was resistance from the Board.

STUDENT CHOICE 1: Can you tell me a little more about the performance drivers? I really want to understand it so I know what I'm looking at when you send the model.

STUDENT CHOICE 2: The Cost Index is about how to measure facility-wide costliness, right? I don't think this one is as big of an issue as the performance drivers though.

CHERYL RESPONSE 1: Of course. We'll focus on a model that's already in place. We used one measure on our dashboard: the ROE, or return on equity model. There's a few different ways you can look at ROE as related to the assets, but we relate our primary determinants of value, which are profit, investment, and cost of capital, to a set of macro drivers, and then micro drivers, and those micro drivers are measured. Then, we include those in the dashboard.

CHERYL RESPONSE 2: Actually, if we use the same performance driver categories that I set up that dashboard with, we should have 49 measures, and we can compare the results of those performance measures with external data, like U.S. averages, or even against our market competitors. If we use similar benchmarking data, we can also use that comparative data, but if the reference points are not the same, it's comparing apples and oranges.

STUDENT: So, what are the macro drivers, and can that measurement data be used in the Hospital Cost Index?

CHERYL: The macro drivers include revenues, margin, working capital, capital expenditure, and financing mix. But it will make more sense to talk about this once I send it to you. As far as using the measurement data in the Hospital Cost Index or HCI, I'm pretty sure that I can put that together, but let me take a look.

STUDENT: Do you think you can have it to me with enough time for me to review before I have to make my recommendation tonight?

CHERYL: Yes, don't worry. Look for the email in about an hour! I better get my lunch to go then, so I can get to it! Bye!

Scene 7: The Final Stages

In this scene, the Student is back at the office and gets an email from Cheryl with the performance driver model. The Student calls Cheryl, and over a video call, they talk about the recommendations that the Student should make to the Board.

Location	Attorney Office
Scene setup	Student sits at the desk in front of the computer, phone is on the desk.
On-screen characters	Cheryl
Off-screen characters	None

On-screen text: You're getting an email. . .

NOTE: Zoom into the computer, where the Student can click on the email, and then click on the attachment to review the model. (Model is based on page 251 of textbook)

EMAIL	Hi again, I attached the model – I'll give you a call in a few minutes, I have to walk the dog first. Talk to you soon, Cheryl
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<Phone rings, student clicks on phone to answer. It's Cheryl Niko, calling to talk about the performance driver model.

CHERYL: Hi there! Did you get the email?

STUDENT: I did! Thank you.

CHERYL: Sure, my pleasure. So let's dive in. We already talked about the macro-value drivers. These are the main categories, and then the micro drivers are the things we actually measure, so you can see how they break down. You can see that we have chosen 13 critical performance driver categories – and these haven't changed for years.

STUDENT CHOICE 1: So this relates back to the dashboard?

STUDENT CHOICE 2: This is about the balanced scorecard?

CHERYL: Remember, the dashboard is a subset of the scorecard. What we're looking at is the drivers we chose, and the dashboard provides the data according to those categories. We had benchmark data for these measures; that's how we measure current performance – against past

performance. We can also use this data to compare against competitors, or even national industry benchmarks. I remembered after I looked at this again that we specifically chose benchmark data that we could compare against both Medicare Cost Reports and the MedPAR file, which are both publicly available. So, it's never apples and oranges.

STUDENT: It is starting to make sense. How does this relate to the HCI?

CHERYL: That's actually how I got to labor as a huge cost factor. Almost 50% of the system cost is due to staffing. I don't want to go into the intricacies of applying the data using the Hospital Cost Index, but one of the reasons I used it is because our outpatient ratios are up. Most of those patients are Medicare funded, and we can use the Medicare Cost Report which is the same source as our comparative data for drivers. This way, those numbers remain consistent throughout the reports. Just using the example of labor, I think you can make certain recommendations to the board.

STUDENT 1: Can you explain the labor costs in a way that I can explain to the Board?

STUDENT 2: Are there any other drivers that we need to cover?

CHERYL 1: No problem. There are a couple of interesting things. Our salary costs are high compared to the national average, and also to our main competitor. But productivity is also better. They actually generate more revenue dollars with fewer full time employees. So while labor remains a huge consideration, they are actually producing well in that area. If anything, they can set slightly lower hiring salaries. That'll make the new CFO happy!

CHERYL 2: The main issue, and the reason I wouldn't recommend that they take on a renovation bond at this time, is asset investment. This is one of the main determinants of value, remember? Investment value derives from working capital and capital expenditure. As you can see, there is excess investment in fixed assets. In fact, it is 213 million dollars above typical U.S averages. This could cost the system between 13 and 21 million dollars annually. They really need to put new capital expenditure reviews in place, or it will get worse.

STUDENT: So, you're saying to recommend that they don't do the renovation bond?

CHERYL: I don't think they should do it now, but they can probably do it in the future, if they get on top of the existing capital expenditures.

STUDENT: Well, in addition to recommending that the salary tables should be looked at, can you think of any recommendations I can let them know tonight? I don't think they're going to like my vote.

CHERYL: Well, they have lower inpatient and outpatient charges, and higher market share. So, they can use this to negotiate better contracts with the major payers. That will generate additional revenue. And, they should use the Hospital Cost Index, as the case-mix index has been decreasing. Plus, costs are higher in inpatient ancillary services; they're actually exceptionally high. They need to make sure they're billing for everything, and coding properly. It looks like there's a problem in pharmaceuticals specifically.

STUDENT: Anything else?

CHERYL: They've already invested heavily in facilities in the past. As I mentioned, this is a big part of the problem: investments are too high. Maybe they should reconsider the ways that they are using the facilities, rather than completely renovating them.

STUDENT: Very good! I'll be sure to make these suggestions. Thanks for all your help!

CHERYL: Of course! Let me know how it works out, okay?

STUDENT: Do you want to just plan to meet for coffee in the morning? I think I'll get home too late tonight to call you.

CHERYL: That would be perfect. The usual place, around 7:30? My treat.

STUDENT: Oh no, I totally owe you. So, it's my treat. See you then!

Scene 8: The Board Meeting

In this scene, the Student has just finished their recommendation to the Board. They are received well by the Board members, who then discuss changes they can recommend to management.

Location	Conference Room
Scene setup	Student faces the screen, and Donald is on one side of the table, Natalie and Casper on the other.

On-screen characters	Donald, Casper, Natalie
Off-screen characters	None

On-screen text: Shortly after your recommendation to the Board...

DONALD: ... and the NAYS carry with 5 'no' votes received in the room, 3 'yes' by online vote, 3 'no' by online vote, and 4 'no's' received by proxy. So the renovation bond is not approved this year. Anyone have any comments?

CASPER: I'd like to say that the financial research and presentation provided by our newest Board member really swayed my position. I didn't have time to do my own extensive research, so I really appreciate the attention to detail and the easy-to-understand summary of the complex data, especially within such a short time frame.

NATALIE: I agree! Thank you so much for doing this. It made my decision become crystal clear. I still think we need to do the renovation, but obviously it makes sense to wait.

DONALD: Right. We should remember that our priority focus is on the patient and providing excellent care to our community in general. We can see by these reports that things have gotten a little out of hand on the investment side, but thankfully we've still been able to provide top-notch care through our efficient staff. <to Student> Thank you very much for your great input.

STUDENT: I can't take all the credit, but thank you!

DONALD: So, what about any recommendations to management?

STUDENT: I would recommend that, based on our lower inpatient and outpatient charges, and higher market share, we should negotiate better contracts with our major payers as a way to increase revenue.

NATALIE : Right, and based on your report, I think we need to put some new capital expenditure reviews in place, to reduce the excess investment in fixed assets. And, like you mentioned earlier, we can look at using our existing facilities in more efficient ways.

CASPER: And, it looks like hospital costs are exceptionally high in outpatient areas and this may be related in some ways to billing, since a major percentage of our outpatients are through Medicare. And like you mentioned, inpatient ancillary costs are high around pharmaceuticals, and that needs to be improved.

DONALD: Very good. We can contact our largest payers and look at renegotiating contracts and fee schedules. Maybe we can even change to a pay-for-performance arrangement. That will really scare the competition! And, I heard about a group in Alaska that received start-up money from the state legislature for a clinic. Maybe we can use our Board connections to check into available funding for a clinic that sees only Medicare patients?

NATALIE: I can check into that, for sure.

CASPER: And I can dig deeper into the dashboard reports about the labor costs and billing issues. Then, I'll prepare some numbers that we can bring to the CFO to address these issues.

STUDENT: Perfect! That way I can take a much-needed rest from looking at numbers and reports for a while!

DONALD: You deserve it, that's for sure! Okay, great meeting! Thank you, everyone, for your hard work and dedication to our hospital system. See you all next month!

Scene 9: Celebrating Success

In this scene, the Student meets Cheryl for coffee to talk about what happened at the Board meeting, and what the Student has learned. This serves as the assessment for the Learnscape.

Location	Corner Café
Scene setup	Student is facing Cheryl, who sits across the table.
On-screen characters	Cheryl
Off-screen characters	None

On-screen text: Meeting Cheryl for coffee to celebrate . . .

CHERYL: Hi! I've been dying to hear. How did it go?

STUDENT: It actually went very well! Thanks to you, the Board loved the detailed reports, and we may have saved the system from going under, by voting down the bond.

CHERYL: That's great. I know it was a ton of stuff to wade through, but I kind of enjoyed it. And you learned a lot, right?

STUDENT: Yes this was a great learning experience for me! I hope I can remember it all next time I have to do this on my own.

CHERYL: Well, I'm sure you won't forget about dashboard reports any time soon. What are some questions this report answers? Do you remember?

STUDENT 1: Let's see. "What is most important for the hospital's success?" and "What are the critical performance drivers?"

STUDENT 2: "What are the results of a Hospital Cost Index?"

STUDENT 3: "What is our long term solvency plan and how will we get there?"

CHERYL: And, what is the primary objective of a healthcare system?

STUDENT CHOICE 1: Sustainable growth.

STUDENT CHOICE 2: Equity growth.

STUDENT CHOICE 3: Return on equity.

CHERYL: I know we talked a lot about critical drivers and performance measures. Do you know the three primary determinants of value that will be related to the macro drivers that we chose?

STUDENT CHOICE 1: Profit, investment, and cost of capital.

STUDENT 2: ROE, FSI, and Business Unit Value.

STUDENT 3: Working capital, capital expenditure, and Financing Mix.

CHERYL: Do you know why I wanted to use the Hospital Cost Index rather than the Adjusted Discharge Measures of cost?

STUDENT 1: Short answer, it's more specific, and more geared to outpatient costs. Since most of our outpatients receive Medicare, it makes more sense.

STUDENT 2: It looks at Medicare costs a couple of different ways and divides the results by the national median, adjusted for area wages. It's more specific than the Adjusted Discharge Measures.



JBL - Health Care Finance

Learnscape 3: Firm Financial Position or Not?



CHERYL: Nice! You understand these terms more than you realize!

STUDENT: So, up until now, I was thinking I should retire from the Board as soon as my term is up—that this is just too much work! But now--

CHERYL: Now, I think you should reconsider and see how it goes. You just came in at a very difficult and stressful time. I'm sure it will be smoother sailing from here.

STUDENT: Well, I can't thank you enough for all your help, Cheryl.

CHERYL: There! You just reached your 'thank you' quota! So, you don't have to thank me anymore! Really, it was my pleasure! Hopefully, we'll get to work together again soon!

FADE OUT.

End of Learnscape 3.