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NEW REVENUE GROWTH

Alan M. Zuckerman

organizing and managing successful growth

How is it that some firms, such as General Electric and Toyota, manage to grow in a financially beneficial manner year after year, while many others don't?

Research shows that financial success is a function of a few basics: vision, leadership, and execution.

The "vision" thing. A minority of U.S. companies, and even fewer worldwide, have a true vision of where their company is going. Without a vision and a road map, such as a strategic plan, it is extremely difficult to grow successfully year after year.

Leadership. Successful, growing companies generally have strong leaders. Leaders break new ground, they inspire employees, and they create rather than follow. Leaders develop new markets and shape existing ones.

Execution. Among the companies that have the first two qualities, only a few also have good management and can execute their strategies. Ironically, research suggests that a majority of U.S. and international companies are well managed, but lack vision and stumble financially and otherwise from time to time. Good executors are disciplined, hold people

accountable, and have evaluation and monitoring systems that allow them to measure progress and make adjustments as they proceed.

The management talents and skills that help organizations grow successfully year after year are, to some degree, learnable. Healthcare financial managers who want to be effective should master five approaches and techniques for organizing and managing successful financial growth.

Strategic versus nonstrategic growth. Not all growth is good. Growth can be too slow and sometimes even too rapid. Growth can also occur in businesses or markets that are not in an organization's core competence, where such competencies are difficult to develop, or in areas where a shortage of trained or available managers exists. Growth can emerge in financially disadvantageous businesses, markets, and segments, or growth may result during the pursuit of short-term profits, which then evaporate. Companies with a long track record of positive financial performance and growth usually have grown strategically, pursuing opportunities consistent with their vision and strategic plan and rejecting nearly all other opportunities—of which there are usually many—that present themselves.

"There is that law of life, so cruel and so just, that one must grow or else pay more for remaining the same."

—Norman Mailer

Use of criteria to prioritize growth opportunities.

Companies with a strong growth record are disciplined in their pursuit of growth. Because opportunities almost always outnumber available resources, a mechanism to select the opportunities to be pursued is needed. Successful growth companies use structured processes and quantitative methods to aid in selecting preferred growth opportunities rather than ad hoc approaches and subjective decision-making processes. Return-on-investment criteria, other hurdle rates, risk-assessment and simulation, scenario-analysis, and game-theory approaches are common methods.

Business plans. Any significant investment—and the threshold for what is significant varies by organization—may call for developing a business plan. While business plans have been needed typically when outside funding is sought, leading companies are increasingly also using them to assist in internal funding decisions for growth ventures. The business plan is valuable not only when the initial decision to establish, expand, or acquire is being made, but also when carefully managing growth and evaluating and monitoring progress once the initiative is under development or operational.

Ongoing evaluation and monitoring. Even among the leading growth companies, structured systems to

monitor progress and make mid-course corrections are a relatively recent innovation. The literature on implementation makes clear that evaluation and monitoring systems are essential to continued success. Without such systems, progress is haphazard and eventually falters in the absence of an unusually talented manager or outstanding business opportunity.

Repositioning, downsizing, and divestiture. Possibly the most difficult decision, and one that is rarely made except in extreme situations in not-for-profit health care, is backing off or backing down in the face of hostile business conditions. Successful growth companies are good at trimming their losses when the situation dictates it. In most business expansions, strong growth cannot continue indefinitely, and some adjustments from time to time are not merely inevitable, but desirable. The good poker player knows not just when to “hold ’em,” but also when to “fold ’em.”

Senior financial executives who want to help their organizations grow strategically should consider each of these five approaches. Each one will be discussed in greater detail in future columns. ■

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