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The Six Stages Of Fiscal Ruination

By Charles J. Pendola, CPA, ESQ, CFE, CFE, FHFMA, FACHE, CMC



Many of us are familiar with the 1969 book, *On Death and Dying* by Elisabeth Kübler-Ross, which describes her model of the five stages of grief or dying:

1. Denial ... evidenced by ... but, I feel fine.
2. Anger ... evidenced by ... but, why me?
3. Bargaining ... evidenced by ... but, if I could have more time.
4. Depression ... evidenced by ... so, what's the point?
5. Acceptance ... evidenced by ... It's going to be alright.

All organizations regardless of their size, industry, sponsorship, revenue levels, mission or vision, go through four Corporate Life Cycles, namely, *Development, Growth, Maturity and Decline*. This is especially true for health care entities that are now confronting the most dramatic changes in the way they do business since the advent of Medicare in 1966. However, does a model similar to Kübler-Ross's exist for organizations that are succumbing to fiscal ruination? I think there is. Let's call this model the *Six Stages of Fiscal Ruination*.

Each stage, much like the stages written about by Kübler-Ross, can be identified clearly by the independent fiscal analyst or fiscal historian. But what if we could detect these stages before they reached their ultimate conclusion? In order to achieve that goal we must first identify the stages and their telltale signals.

Six Stages of Fiscal Ruin

1. Random Unwarranted Success
2. Undetected Erosion of Core Business
3. Denial of Inability to Right Organization
4. Blame Avoidance
5. Bargaining for Time
6. Acceptance of Inevitability

To better understand each stage, let's distinguish their origins and consequences.

1. Random Unwarranted Success

This seemingly positive situation is underscored by a period of great financial success. However, it is an "irrational and unwarranted" success story built on luck or reasons unrelated to management's efforts or talents. Success is not based on quality of product or service, nor on a detailed plan, nor on a series of processes and procedures aimed at achieving a stated goal or goals. It is simply a case of being in the right place at the right time; in other words, anyone would have achieved the same results or better.

2. Undetected Erosion of Core Business

This classic occurrence results from management's failure to timely identify changes in the fiscal trends that underpin the organization. The most obvious is the failure to identify the erosion of the organization's historical constituent/client/customer base. This is particularly true for healthcare providers.

3. Denial of Inability to Right the Organization

This is evidenced by management's presumption that all fiscal shortfalls can be remedied in a short time period. It is compounded further by the failure to recognize the systemic decline in management's attentiveness to everyday events and inaction in the face of obvious negative variances in volumes or costs. The death knell is thinking that such changes are routine and will be self-correcting.

4. Blame Avoidance

This stage is evidenced by the organizational belief that all fiscal problems emanate from outside forces unattributable to internal management, e.g., the decline in the general economy, the troubled specific industry, and governmental interference and over regulation.

5. Bargaining for Time

The notion that, if given enough time, management will be able to work through these brief fiscal blips on the screen. This is evidenced by negotiating with labor and/or creditors/vendors. Some of the provisions sought include:

- Temporary wage concessions
- Benefit reductions
- Payment extensions
- Increased loan capacity or
- Requests for waivers of fiscal benchmark covenants.

6. Acceptance of Inevitability

This is evidenced by the view that:

- "We tried, but we were destined to fail"
- "It's a tough business" or
- "Losing is an acceptable outcome in the game of business"

If we pause periodically to view the organization in a critical fashion, we may detect some or all of these issues in enough time to take corrective actions.

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