



OTHER VOICES

"When I spent a week in Nashville a few years ago ... I came across story after story of (Bill) Frist performing some act of personal kindness, ranging from saving lives in Africa to writing out a 40-page memo on the ecology and history of Nantucket for an acquaintance who was going to vacation there. There were two things Frist was not: political and ideologically conservative. ... Many who've known him say it's hard to square the current on-message leader with the honest young man of (his book) *Transplant*, the stiff, ideological politician with the beloved community leader who made such a mark on Nashville."

—David Brooks, *New York Times*

In a galaxy not so far away ...

AHERF lost its way. Will HealthSouth debacle awaken CFOs' inner Jedi?

As the last installment of the "Star Wars" series plays at a multiplex near you, it's a good time to remind chief financial officers that healthcare can be seduced by the Dark Side, too. You can find one memory stimulant beginning on p. 40 of this issue as reporters Cinda Becker and Paul Barr examine the aftermath and repercussions of the collapse of the Allegheny Health, Education and Research Foundation, or AHERF. Seven years after the system imploded, the fallout is still raining on Pennsylvania, especially in Philadelphia.

First, let's talk about the movie. I'll promote fiscal conservatism by telling you the gist of the story, and you can save the bank-breaking costs of tickets, parking and popcorn for a movie that, despite its special effects, is tedious and dialogue-challenged. Some key themes, however, are worth noting. An oily politician lures Anakin Skywalker into his evil empire-building enterprise by capitalizing on the young Jedi's ambition, desires and fears. After enough manipulation, Skywalker nearly exterminates the Jedi, the guardian knights of the galaxy, and pretty much destroys everyone and everything he held dear. As the movie ends, Skywalker has morphed into Darth Vader, and he and his Dark Side master, an evil Jedi counterpart known as a Sith, are cruising space in a quest for galactic domination.

Sherif Abdelhak, the one-time chief executive of AHERF, had a lot of big ambitions, too. He wanted to create a massive integrated health network that would dominate Pennsylvania and nearly did so. In choosing to consolidate, Abdelhak was hardly alone. In the late 1980s and 1990s, the prevailing wisdom was that bigger is better. It was a medical arms race in which providers and insurers tried to control the most lives and achieve overwhelming market force. Abdelhak was singular in the scope of his ambition and recklessness. He pursued strategies and acquisitions that in many cases made no sense other than to have more toys. (Like most empire builders, he also treated himself very well with

other people's money.) As his overextended and debt-crushed empire collapsed, AHERF went down in history as a \$1.3 billion bankruptcy, the largest ever in not-for-profit healthcare.

It's worth noting that the AHERF implosion preceded the revelations of financial misdeeds at Enron, WorldCom and Tyco. Talk about pioneering. Moreover, Abdelhak was aided by compliant, confused and conflicted board members and—this is important—his CFO and another top executive. The team hid the true financial picture and resorted to improper tactics such as internal cash transfers and dipping into hospital endowments.

Another disaster for CFOs to ponder is the HealthSouth Corp. debacle. In this sad story, no fewer than five CFOs participated in a long-running scheme to inflate the rehabilitation giant's earnings and support its stock price. As I write this, a jury is still weighing former CEO Richard Scrusby's legal guilt or innocence in the affair. However, it's clear from everything we know about Scrusby that he ruled by preying on underlings' ambitions, desires and fears. No Jedi pulled out a light saber to stop the conspiracy before it got out of control.

Some experts say AHERF and HealthSouth couldn't happen again. Reporting requirements and Wall Street expectations since the major corporate collapses of the last decade

won't allow it. Maybe, but I wouldn't underestimate the Dark Side of the business universe; unprincipled people always find ingenious ways to cheat the system. To make things worse, investors forget past troubles when the financial party is rolling. The question for CFOs is: When the next conspiracy comes along, will you be a Jedi or a Sith?

May the Force be with you.



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