

# Bucking the System

7 strategies for trustees at hospitals that are striving to stay independent

By David W. Miller

Hospitals across the country are talking about consolidation. Frequently, those discussions relate to the perceived imperative and benefits of joining a bigger system.

American Hospital Association data show that more than 250 independent hospitals have joined systems in the past 10 years. There are passionate voices saying there is no other choice. Among board members, however, there frequently is a passionate desire for local control and independence.

The decision to remain independent is often the path of least resistance and the most politically palatable. But doing so is not simple. Hospitals that wish to remain independent must have financial strength if they have any hope of building the resources needed to survive as freestanding entities. It requires a focused strategy. It likewise requires a leadership team that is efficient at implementing its plan.

An examination of successful independent facilities points to seven strategies — detailed below — that must be considered if independence is your goal. A key success factor is the mix and prioritization of these strategies, given limited resources. Your strategic planning process is in essence a priority-setting exercise.

In addition to selecting strategies, the relationship between the CEO and the board is key. That relationship must be based on trust and confidence, and if it is weak, the odds of staying independent are minimal. Tasking the CEO with preserving independence and community control is fraught with risks, and the board must understand those risks and recognize the complexity of the task at hand.

With a focused strategy and steady leadership, remaining independent is possible. But it is difficult, and board members must evaluate whether hospital independence is the best approach for the community they serve. The board must be open to consolidation if or when it becomes best for the community.

Until or unless this happens, the board can pursue strategies that support the goal of independence.

## Develop robust primary care

Having a strong primary care base is critical to preserving your hospital's independence. It is the strategy that pays dividends if your hospital is rewarded for volume. In a fee-for-value world, primary care physicians are best-positioned to control the rational utilization of services.

An abundant supply of primary care providers also eases access to health care for the community. For example, many hospitals are focusing on access by committing to same-day appoint-



## TRUSTEE TALKING POINTS

- More and more hospitals are joining larger health systems.
- Boards that want their hospital to remain independent have a number of strategies they can follow.
  - Among them are maintaining and developing a strong corps of physicians and specialists, paying attention to quality of care, and becoming involved in the trends transforming health care.
  - Local hospitals must set priorities based on the resources they have available.

ments. But without enough primary care physicians and other providers, this is impossible. The ability to recruit and retain physicians thus becomes a core competency for hospitals.

To augment the physician community, the use of advanced practitioners is growing in many markets. Whether nurse practitioners or physician assistants, nonphysicians are gaining acceptance as primary care providers.

The tight market for primary care creates a quandary for many hospitals. To successfully recruit, they must compensate physicians with more than they could earn in private practice. Our advice for hospitals is to bite the bullet and make that investment. This requires a sustainable employment model, recognizing that most practices likely will not break even.

Having providers in place is a big part of the solution but not the only part. In our experience, doing the following is critical:

1. Ensure primary care practitioners are working hard through appropriate compensation incentives. For example, a primary care provider seeing only 10 patients a day will not help your bottom line or the community. It is essential to set standards and expectations around volume. Scheduling templates that drive those expectations and financial incentives for front-office staff are also beneficial. If front-line workers have an incentive to fill the schedule by going out of their way to accommodate patients, the health system will benefit.

2. Ensure PCPs are spread out geographically to maximize access. Putting physicians near patients can have major benefits.

3. Ensure PCPs refer to your specialists and services when appropriate. Generating the expectation that referrals will remain in the system, and thus build the system's volume, will help you meet your objectives. Care must be taken to focus on patient needs first, but within that context, many referrals can likely be directed internally. Having data to manage this process is helpful, and a growing number of vendors provide usable data.

All of these approaches factor into

success, which in this case is defined by patients having better access to your doctors and facilities.

### Build specialty capabilities

The second strategic element is to minimize referrals out of your system. This is not feasible if you do not have the physician and service line capabilities required by patients.

Hospitals that we have seen successfully remain independent have focused on ensuring their physician force is strong and can support referrals. Their strategic planning processes focus on making investments in key service lines to stem the tide of patients going elsewhere.

Building the number of specialists is key. Equally important is improving the quality of those specialists. Hospitals have addressed these challenges by working with tertiary care centers to enhance local services as well as by working independently. The former method is fraught with potential difficulties, as a tertiary center is likely motivated by the desire for patients.

Boards of directors often struggle with building their specialist corps, as it may require significant subsidies. The average subsidy of a specialist is about \$200,000 annually in the U.S.

Pursuit of this strategy must also be accompanied by growing operational capabilities around management of the physician group. A board does not want its organization to be forced into a merger due to massive losses in employed practices. Building a strong management infrastructure can help you avoid that path.

### Develop physician leaders

Organizations that thrive, and organizations that remain independent, must have strong physician leaders. The challenges your organization faces from value-based purchasing, and the challenges you will face from private insurers and employers, will primarily be addressed by better clinical management. Improvements in care management and population health can only be led by physicians.

Good physician leadership pro-

grams have some common elements. Typically, they:

- Define the roles that physicians must fulfill.
- Assess the leadership potential of physicians and avoid the assumption that any physician can be a leader.
- Engage physician leaders in practical education such as working through real case studies, not just classroom education.
- Provide classroom education focused on industry knowledge, management knowledge and leadership theory.
- Emphasize how the physician enterprise meshes with organizational strategy.
- Drive physician leaders to work collaboratively to define behavioral norms and set the culture for physicians.

In order for a hospital to preserve its independence, physicians have to focus on their role in that objective. Many physicians support independence but have a limited understanding of how physicians' actions affect it. It is important to spend time making this clear.

Finally, physician leaders must be respected by their peers. This often comes down to their clinical skills and judgment. It is hard to lead if your peers do not believe you are a good doctor. Respect alone, though, does not make a good leader.

### Enhance care management

One of your physician leaders' key responsibilities is improving the way care is managed. A focus on this will be key to survival in a fee-for-value market.

The first element of this strategy is the physician culture. Can you create a common vision among physicians that care management is an important issue to tackle? Are they willing to be mutually accountable? If your physicians are not up to this task, it is likely time to consider joining a system that has resources to help drive this agenda.

Care management has traditionally been limited to the hospital proper in many organizations. Reforms are forcing its scope to expand beyond the hospital's walls: Providers are being held responsible for care across the con-



tinuum. This requires the development of new relationships with other providers, the integration of quality systems into physician offices, and new, more broadly defined quality metrics.

Physicians need education about changing reimbursement systems and changing incentives. With the resulting knowledge, most physicians are able to understand the need to focus on care management. The reality that insurers will seize the initiative if physicians do not is an additional incentive.

### Forge relationships with employers

Independent hospitals have to be profitable. If the hospital does not produce cash to fund investments, it will not be able to operate independently.



That said, many hospitals fail to focus on the sources of those profits: the privately insured.

Building direct relationships with local employers is critical to preserving independence.

This strategy revolves around contact with these profitable payers, removing the insurer as the middleman. This will give you influence with both employers and their employees. Those employees tend to be your most mobile population, the most willing to leave town for other health care options.

Providing an employed primary care physician as an employer adviser is a great vehicle to increase that influence. As your physicians focus on care management and gain insights into how to improve care, they can begin sharing those insights with local employers. Ideally, physician advisers can help an employer with benefit design.

A final admonition: Do not let insurers stand between your organization and these profitable patients. If you are not courting employers, your ability to remain independent will decline.

### Pursue accountable care

Defining your approach to accountable care is the sixth strategy, as the ability to manage downside risk is growing in importance. Providers are increasingly being held accountable for cost and quality. It is important that your organization put its toe in the water and begin to develop knowledge and a strategy to deal with this issue.

That may involve a Medicare Shared Savings Program model accountable care organization or include bundled prices through a government program such as the Comprehensive Care for Joint Replacement model or with private insurers. Our recommendation is to dive into the accountable care arena, begin to understand the issues and challenges, and work with your physicians to increase their market savvy. Ignoring this issue will put your long-term independence at risk.



If you decide to pursue a locally owned clinical network, one other advantage to accountable care is that in many markets, big players are working to establish statewide or regional networks.

If an independent hospital has developed a network with its physicians, it will find ready-made partners among these larger networks.

### Fund facility investment

Hospitals in competitive markets must

have up-to-date facilities to thrive. This creates a Catch-22 for many facilities, as affiliation is their only path to funding such investments. If the board's goal is to stay independent, it must take some risks and invest in keeping facilities up to date. Older physical plants are almost a guarantee of failure.



### More can be done

Based on your community and its choice of providers, other approaches may be needed; this is not intended to be a static list. Strong marketing programs to build the hospital's image may be essential. A focus on patient service and satisfaction, implied in many of the above strategies, is also important.

As a board, your objective is to help define the approaches that best ensure your community's health needs are met. If your board and management wish to preserve independence, it is hard to conceive how you can do so without building most of these capabilities. If you ultimately believe consolidation is the best route, pursuing these approaches will make you an attractive merger partner. **T**

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## TRUSTEE TAKEAWAYS

Local hospitals need to position themselves in their market if they want to maintain their independence. Because they often have limited resources, their boards should focus on the following questions when making judgments about where to concentrate and where to invest:

1. What are the community's needs, and can we feasibly address those needs?
2. Can we fill the gaps and do a better job of providing a service?
3. Can the service be profitable?
4. What are the service line strengths we can build upon?
5. What services can we "own" in order to develop a strong market share and brand that will benefit the facility going forward?

**Independence requires organizational strength. HSG focuses on working with health leaders and physicians to build that strength. Whether building your strategy, aligning with private physicians, wrestling with the impact of value-based care, or improving your employed network, our insightful and innovative solutions bring great results. Call us.**



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