



Does Your Hospital Wish to Remain Independent?

David W. Miller, Founder and Board Member

Consolidation within the hospital industry is akin to a tidal wave. As independent hospitals struggle, they are forced to consider the safety of a larger system.

The basic principles of economics create part of the challenge. A smaller organization with one core hospital lives or dies by the success of that facility. It has fewer businesses to diversify the risk, and poor performance at the core hospital can force the board to seek a partner.

The second market reality is that stand-alone facilities are paid less by insurers. Despite their concerns about the market power of big systems, insurance companies play a key role in creating them and in driving consolidation. Their negotiating tactics, and short term focus on low rates, compel hospitals to consolidate. Without consolidation, providers have no hope of matching the economic power of insurers.

Despite these headwinds, boards of hospitals prefer independence. They and their medical staff feel more in control, and better able to provide an array of services to the community. The allure of making health care decisions locally remains strong.

BUILDING CORE COMPETENCIES & CULTURE

If hospitals desire independence, CEOs and their boards need to first focus on building the core competencies required to run an independent hospital. These competencies must be engrained in the culture and requirements of the CEO. At HSG, we have observed five core competencies that must be present.

1 | Physician Alignment and Engagement

As the marketplace moves toward more value-based purchasing, it will be impossible to thrive without engaged physicians. They can help you with most challenges, from improving quality to managing within a risk contract budget. Without their clinical insights, it will be difficult to sustain an independent posture.

2 | Understand Where You Make Money

As a general rule, more patients mean greater contribution to overhead, and that leads to greater profitability. But to deal with turbulent markets, a clear understanding of “profit pools” will help with organizational focus and capital allocation. A robust cost accounting system is the foundational investment. Allocating resources with a clear eye toward making profits is also key.

3 | Clinical Talent Recruiting

Two elements of clinical talent are important. First, building a medical staff with high skill levels, stars if you will, is critical to independence. Hospitals who have taken an aggressive stance on upgrading their physician community have a better shot at preserving independence (if the CEO does not get fired in the interim). Politically, it is a tricky proposition, but must be pursued. Second, and equally important, is the quality of the nursing, pharmacists, and other clinical professionals. Stability in their ranks, and strong leadership in their departments are big contributors to growing volume...the volume needed to preserve independence.



If hospitals desire independence, CEOs and their boards need to first focus on building the core competencies required to run an independent hospital.

4 | Management Accountability

A strong culture of accountability around results is necessary for freestanding facilities. Mistakes are magnified (due to limited diversification) and poor performance can sabotage organizational aspirations. Hence, a culture of accountability and control systems to drive accountability must be present.

5 | Cash

Starting from a position of financial strength is always a requirement. Hospitals with 40 days of cash have already lost the battle. Having a strong balance sheet, and adequate cash reserves to weather storms, position the organization to remain independent. A key part of this is excellence in revenue cycle management; aggressive denial management, accurate and aggressive coding, producing clean claims, and speed getting the claims out the door and collecting.

These competencies vary from exciting and exhilarating, to more mundane, and some are the basic blocking and tackling required to run a hospital. None of the competencies are easy to build, as they require intense management focus.



STRATEGIC INITIATIVES TO POSITION FOR INDEPENDENCE

Building the core competencies noted above is time consuming but is essentially a leadership task. The CEO must drive these competencies throughout the organization, simultaneously starting with educating the board and fostering accountability among senior executives.

The next step is to define strategic initiatives that will maximize the attraction of profitable patients. While all markets are different, at HSG we see common threads among hospitals that can control their own destiny to remain independent. The items below and on the next page should get serious consideration.

- **Primary Care Strategy.** A strong primary care strategy produces a number of benefits. It creates more access points to your system. If the providers are employed, your system has greater ability to influence the flow of downstream revenue. Alignment also gives you greater ability to integrate primary care into your population health initiatives. A robust network can minimize competitor encroachment in your market. And ultimately, as fee for value grows in importance, you have a strong cadre of providers to help manage care more efficiently.

- **Access.** Easy access is essential to growing profitably. Access to primary care providers, to specialists, to diagnostic and treatment services are all important. Superior access starts with a culture that values being accessible. That has been a challenge during the pandemic, as easy access has declined. But as that challenge fades, culture must be supplemented by systems that drive accessibility. Aggressive scheduling templates, one step referrals, extended hours in practices, and even incentive programs to fill schedules are all part of that systemic infrastructure that will drive access.
- **Patient Experience.** When growing profitable volume, the easiest patients to attract are those already using your hospital and its related services. Turnover of staff in the 2020 to 2022 years has created barriers to delivering great experiences, but now that the pandemic is behind us, doubling efforts to wow patients is a priority. Attracting great clinical staff, as noted above, will help with this. As an aside, this initiative will also build community support for the hospital.
- **Physician Engagement.** This has been noted as a core competency, but it deserves mention as a strategic initiative as well. Having positive physician leaders in key roles will improve organizational performance. Those leaders can focus on a variety of initiatives, which may vary by market. But in most cases building a strong employed network of providers, building referral relationships, and growing strong service lines around superior physicians will be important. Using physician insights to slowly move toward risk based contracts will enhance your strategy as well.
- **Relationships with Employers.** Privately insured patients are the source of your profitability, thus the source of the financial strength that will sustain independence. Hospitals have tended to cede these relationships to insurers and brokers-that is an enormous mistake. Building products that will benefit the employer and the insurer, such as direct contracting, direct primary care, preventative services, and onsite clinics will help seal your relationship with these critical players. Building on those relationships will contribute significantly to your goal of independence.





- **Payer Leverage.** This is likely the most challenging initiative proposed, as higher rates generally correlate to membership in a bigger system. However, hospitals have one other potential lever point; their control of the primary care market. HSG routinely evaluates market share of primary care visits in a given market. If hospital employed providers have 35-40% share of primary care visits, the hospital has leverage with insurers. Insurers do not want a massive outflow of primary care providers because of how that impacts patients, and if a hospital is aggressive in leveraging their PCPs they can influence the rates for the hospital as well. Again, another rationale for a robust primary care strategy.
- **Regional Growth.** At its core, boards must ask if there is adequate volume in the home market to sustain the hospital. Often the answer is no. Expanding that market, particularly by adding more employed physicians and more ambulatory services, has two strategic advantages. It increases the revenue potential of the organization, and it creates a buffer against intrusions by competitors.

CONCLUSION

The market continues to create barriers for hospitals that want to remain independent; it is not easy to do so with the increasing financial challenges. The competencies and initiatives laid out in this article are critical elements considered by hospitals who have successfully remained independent, and if your organization is wanting to follow the same path, they should be considered best practices. It will not be easy nor is it foolproof, but continued independence is possible with the right focus from both the board and executive management.

Contact our expert in HSG Strategy, CEO Travis Ansel, MBA, at TAnsel@hsgadvisors.com or (502) 814-1182, or book a meeting [here](#).

ABOUT HSG ADVISORS

HSG Advisors partners with health systems to transform their approach to markets, services, and providers for improved growth and operational and financial sustainability.

SERVICES



HSG CLAIMS DATA ANALYTICS

Data analysis leveraging all-payer healthcare claims data with HSG's insights and expertise to evaluate competitive dynamics related to markets, service lines, providers, and patients.



HSG EMPLOYED PROVIDER NETWORKS

Building Shared Vision, designing organizational, leadership, and governance support structures for better quality and financial performance, and developing solutions for overall Operational Excellence.



HSG STRATEGY

Strategic development for health systems' long-term goals and direction that allow for simultaneous pursuit of immediate market opportunities, with a focus on Growth Strategy and Medical Staff Development Planning.



HSG COMPENSATION AND COMPLIANCE

Provider compensation model development and implementation guidance for hospitals and health systems focused on sustainable solutions that promote market competitiveness, financial sustainability, and regulatory compliance.

CONTACT THE AUTHORS



David W. Miller,
Founder and Board Member

(502) 814-1188
dmiller@hsgadvisors.com