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Preparing Your Public Hospital for Success During a Downturn

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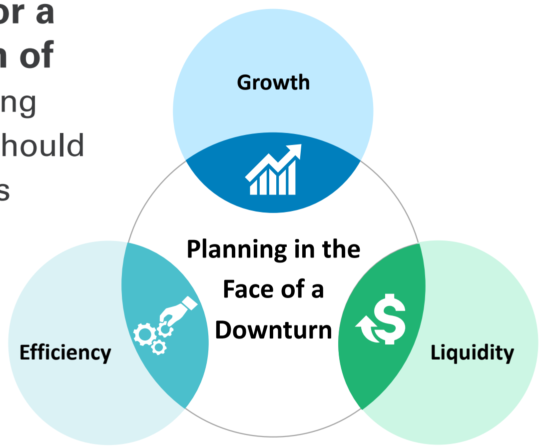
Labor shortages, the rising cost of capital, inflation, eroding investment portfolios, and preparing for a possible recession are consuming the attention of health system executives. Deleveraging and reducing costs through automation and operational efficiencies should be priorities of public hospitals, and efforts should focus on sustainable solutions that generate long-term value. But reducing debt and providing services more efficiently doesn't mean retrenchment. Public hospital leadership should be preparing for an economic downturn by shoring up their balance sheet, diligently pursuing operational efficiency opportunities, and positioning for growth.



Liquidity

One would think hospital executives would be eager for the end of 2022; more than half of all hospitals are expected to lose money this year. The cost of labor, purchased services, supplies, and drugs have all increased approximately 25 percent from 2019. And yet, expenses are expected to continue to rise into 2023. But now is not the time for additional debt. Hospitals with high debt and low days cash on hand are particularly vulnerable when patient service revenue declines. The situation is exacerbated for public hospitals that:

- Have less access to capital than large health systems and no opportunity to issue equity.
- Bear a greater share of charity care, which increases during recession.
- May rely on local tax revenue, which often deteriorates during an economic downturn.

Having high levels of debt—and therefore high interest and principal payments—reduces the cash a hospital has to cover operating expenses. Combine reduced revenue, high debt payments, and increasing operating expenses and a hospital begins to face the need to layoff portions of the workforce, reduce services, and take other, more aggressive cost-cutting actions that impair its ability to serve the community.

> ➜ **Key Board Takeaway:** Public hospitals should be taking action now to solidify their balance sheets. Waiting until a recession has begun may be too late.

Efficiency

Successful organizations must adopt a continuous process improvement business model and focus on reducing unit costs through improvements in efficiency, productivity, lower-cost resource utilization, and innovation in care and business processes. Optimizing the cost structure often requires a cultural transformation; we must rethink the way we deliver patient care and automate support functions. For many public hospitals, efforts should focus on the following areas.

Care Delivery and Clinical Operations

Establishing a continuous clinical variation management process serves as a catalyst for a data-driven and high-reliability culture that promotes operational, cost, and quality enhancements across the care continuum. Clinical variation requires comprehensive patient population cohorting and provider cost (e.g., supply usage), quality (e.g., readmissions), and process (e.g., length of stay) performance comparisons.

An effective clinical variation reduction program assesses opportunities in parallel with operational process improvement efforts and identifies all possible process, cost, and quality opportunities. Opportunities are quantified and prioritized based on near- and long-term potential, and progress is measured through key performance indicators as improvements are continually refined to optimize performance.

> ➜ **Key Board Takeaway:** Remain focused on metrics that matter. Length of stay is easy to measure, but it has a minimal impact on costs.

Ambulatory Clinic Optimization

Most public hospitals employ or contract with physicians and advanced practice providers. Care delivery continues to move from the historically acute care-centered model to a model in which many traditionally hospital-based services are provided in community ambulatory care clinics.

The volume shift toward ambulatory care is making services more accessible and affordable for patients while also improving outcomes and care quality in the most financially sustainable manner. The increase in volume and types of care delivered in the ambulatory space is driving the need to increase focus on efficiency and effectiveness to simultaneously show a return on investment and ensure quality excellence. To address this burning platform, many progressive ambulatory care centers are applying Lean management tools and tactics to involve staff in the identification and implementation of process improvement projects meant to bolster clinic throughput, quality excellence, and financial performance.

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Automation and Patient Self-Service

Before the pandemic, many health systems were hesitant to adopt automation because of the perceived negative impact on staff who could be displaced. But now, the labor shortage is encouraging the transition of repetitive tasks from humans to machines. Not only should our providers operate at the top of their license, but our support staff should also be consumed by value-add activities while mundane tasks are performed without human intervention.

The labor shortage should also be a catalyst for public hospitals to invest in consumer engagement and a digitally enabled patient journey. In most organizations, the topic of consumer self-service and digital tools for patients to manage access to care requires a tenuous balance between allowing patients to drive and select their own appointments and maintaining internal operations and physician preferences. An effective physician-engaging governance approach is critical to the success of these initiatives.

Growth

While cost cutting will be necessary to meet the community's healthcare needs, investment is also needed to position a public hospital for even greater success when the economy improves. Public hospitals should pursue service expansion, explore new business opportunities in wellness, and employ a deliberate and structured approach to collaborate with other organizations serving the health needs of its community:

- **Service expansion:** A public hospital's growth should be geared to the needs of the community it serves. The migration to outpatient services will continue, and public hospitals should invest in providing services where consumers are seeking them. A public hospital seeking to develop lifelong relationships with its customers must first make sure it is filling all its service gaps—either itself or through affiliations—so patients don't need to look elsewhere for care.
- **New business opportunities:** Rather than limiting the health system to the traditional continuum of care and those services reimbursed by traditional payers, consider moving to a continuum of life where the health system's role is to partner with customers in achieving their best possible quality of life. New revenue sources with higher margin potential than a public hospital's core business become apparent when the hospital considers itself part of the $14 billion workplace wellness industry, $30 billion health club industry, and $120 billion wellness real estate industry. This expansion of the scope of services—provided either directly or through affiliations—allows a public hospital to fortify its relationship with consumers and increase profitability.
- **Collaboration with community organizations:** Structured effectively, affiliations with other community organizations and provider organizations can position a public hospital for growth that expands services to the community while

➜ **Key Board Takeaway:** Cost cutting helps a hospital survive a recession, while investment is needed to spur growth upon recovery.

enhancing the bottom line. Partnering allows a public hospital to combine its strengths with organizations that possess dissimilar strengths, thus achieving additional scale and coordinating services without heavy investment of capital. Partnering frequently allows a public hospital to simultaneously lower its risk, accelerate its timeline, and reduce its cost.

Scenario Planning to Guide Decisions

Effective strategic financial planning is critical under the current and anticipated economic conditions. Scenario planning allows hospital leadership to assess its potential future financial position under a variety of market conditions and assumptions about the hospital's level of success with its liquidity, efficiency, and growth initiatives.

The Governance Institute thanks John Fink, Partner, ECG Management Consultants for contributing this article. He can be reached at jfink@ecgmc.com.