



## Evaluating Independence: A Community Health System's Continuing Journey

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**In 2021, The Governance Institute published an article I co-wrote with Guy Masters entitled “Independence or Merger? A Board’s Most Difficult Decision.”<sup>1</sup>** This was a real-time case study about Washington Health System (WHS) in southwest Pennsylvania, about 25 miles from Pittsburgh, which is an ultra-competitive healthcare market.

In early 2020, WHS had been approached by another local hospital seeking to be acquired by WHS. Multiple other organizations had also approached WHS about merging. The Washington Hospital is the primary hospital within WHS and is positioned in an attractive market at the crossroads between three major academic medical centers and five other large community hospitals and health systems in the surrounding areas. The WHS board stepped back to look objectively at the internal and external environment, scenario analysis, financial projections, and operational assessments to determine whether WHS could achieve its vision “to remain a locally governed healthcare system that is a leader in healthcare quality, safety, and value” as an independent healthcare system.

As a result of that undertaking, the WHS board decided the strategy was to remain independent while pursuing additional partnerships and alliances across the region with select organizations that can provide the specific resources and relationships that will lower per-unit cost in select service lines to reduce the total cost of care. The WHS board was determined to remain vigilant in tracking key financial, operational, and quality performance indicators with set thresholds that could trigger a reassessment of strategic alternatives.

1 Guy M. Masters and Brook T. Ward, “[Independence or Merger? A Board’s Most Difficult Decision](#),” E-Briefings, The Governance Institute, September 2021.

## Context and Background: Essential Community Providers

Washington Health System comprises two rural hospitals—The Washington Hospital (260 beds) and WHS Greene Hospital (50 beds)—that serve primarily two counties and their surrounding communities southwest of Pittsburgh, Pennsylvania. The system generates \$500 million total patient revenue and has more than 2,300 employees and over 40 outpatient sites including a rural health clinic and an employed multidisciplinary provider practice group (100+ providers), and with more than 350 hospital medical staff members.

In addition, Washington Health System has diagnostic centers, outpatient care facilities, the Wilfred R. Cameron Wellness Center, family medicine residency, a school of nursing, and numerous joint ventures in the areas of hospice, senior living, home health, and others, to provide patient/family-centered care. It owns a regional ACO/CIN with three similarly sized community health systems as a value-based healthcare organization and is a participant in the Pennsylvania Rural Health Model CMMI pilot program.

## Over a Year Later

Without rehashing everything that has happened in the last year across our industry and the world, let's take a moment to remind ourselves of the major events negatively impacting healthcare organizations. We experienced the COVID-19 Delta/Omicron surge, the Great Resignation/Great Retirement, Ukraine war, continued supply chain disruption, and increasing inflation to name a few. It goes without saying, it has been an extremely tough period for hospitals, health systems, and healthcare providers.

WHS is no exception to these industry, economic, workforce, and world events, although we have been successful via creating staffing incentives and working with our nurses, thus avoiding the need for a single travel RN. Our primary hospital, The Washington Hospital, is celebrating its 125th anniversary this year and has never used a travel RN over that entire time. As you can imagine, some of the financial, operational, and quality performance indicators set earlier by the board as part of the prior assessment have largely been surpassed in positive and negative ways. Who could have predicted what was about to happen and the impact of those events on our organization?

## Continuous and Iterative Organizational Sustainability Assessment

In the spring of 2022, the WHS board decided to continue its ongoing assessments of the organization's ability to achieve its vision in a financially sustainable way while factoring in the new business environment. WHS is not a large consumer of consultant services, but the board felt having some outside expertise assist the executive team in reviewing the organization's situation was critical. In addition to seeking a consultant to assist, the board made decisions on two key important elements. First, it created a steering committee with some board members and executives to work with the consultant. Second, the board set the goals and objectives for the consultant engagement. This element turned out to be extremely important. It created the basis for the type of consultant, type of assessment, and a common understanding across all stakeholders. This critical conversation resulted in seeking a consultant who would assist the steering committee in identifying a future path forward that would enable the organization to operate as a thriving and sustainable community asset (if that is possible in the new business environment). The stated goal was to have long-term, high-quality healthcare services provided locally in a sustainable way.

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## Market and Financial Assessment

The steering committee worked through several organizational and market assessments to make sure our understanding of the situation was updated since 2020. Some of these assessments included observations from interviews with each steering committee member, market share (by discharge and service line), population trends, value propositions (cost and quality), inpatient/outpatient growth opportunities (by zip code and service line), financial situational analysis, and projected financial scenarios. In addition to doing these WHS assessments, we also completed similar assessments on all our market competitors to look for similarities

and opportunities each competitor might have that was different from WHS. These assessments needed to be approached with an honest perspective and the steering committee was challenged not to insert bias about WHS, the market, and the industry. The consultant was also asked to work with the executive team to do an organization-wide evaluation. They were instructed to evaluate every service line, entity, program, department, and functions (IT systems, FTE analysis, revenue cycle, etc.) to look for opportunities to reduce expenses and/or achieve growth (market share and revenue).

At the conclusion of the assessment phase, WHS received good and bad news. The good news was that the executive team had done a good job running the business. There were some opportunities for improvement, but nothing significant and much less than the consultant normally finds at other organizations. The bad news is that there wasn't any low-hanging fruit that would positively and quickly impact the organization in the near term.

## → Key Board Takeaways

Conducting a proactive rigorous and objective analysis of your organization's operations, market, and sustainability will:

- Show that the board is open to objective, quantifiable, evidence-based analysis of potential options available and associated timelines tied to a financial forecast.
- Demonstrate that an objective assessment fulfills the board's fiduciary duty to the organization regardless of the emotional impact of considering these scenarios.
- Allow all board members to understand the process, variables, and data modeling essential to provide sufficient information to make an informed and defensible decision about options and strategies.
- Identifying a collective goal for this type of activity eliminates the potential for heading down the wrong path and misunderstandings across all participants.

## Findings

Like many healthcare systems across the country, WHS is being negatively impacted by flat volumes and higher expenses due to increased salary/wages and inflationary trends. As our analysis painfully displayed, WHS does not have many opportunities for improvement in our current environment. Following these honest assessments,

the steering committee, working with the consultant, discussed several different strategies and identified the following:

**Option 1: Status quo**

- Fortunately, the organization has a strong balance sheet to weather storms like the one facing our industry currently.

**Option 2: Remain independent while implementing identified opportunities**

- The opportunities identified by the consultant for organization improvement are high risk with limited potential for improvement.
- The execution risk to capture the potential opportunity would be a concern along with the competitor responses.

**Option 3: Partner with another non-profit health system**

- This option may meet several of WHS’s organizational objectives and strategies, but also comes with significant risk. Competing cultures, community politics, IT systems, and physician alignment compound the difficulty of this option.
- This option also triggers the potential for major responses from competitors in an otherwise stable market. Fear of competitor responses should not drive decision making but having open and honest discussions about what the competitor’s response may be will help the scenario/business planning and in making a final decision.

**Key Finding:**

**All of the options considered had the potential to address a certain component of WHS’s core objectives, but no single option would immediately and fully address all the objectives.**

**Going Forward**

At this point, the WHS board steering committee is still evaluating the full ramification of each option. The open dialogue across this group of board and executive team members is critical to achieving the goal of maintaining sustainable, high-quality, local healthcare. WHS’s story isn’t over and will continue to evolve as it has over the last 125 years. Whatever the final decision is in the future, the board is fulfilling its fiduciary obligations, using data transparency (via the numerous assessments), and openly

discussing all options. Fear of change will always weigh heavy on critical decisions, but we owe it to our community and the organization to make tough decisions to achieve the organizational goals and improve our community's current and long-term health.

*The Governance Institute thanks Brook T. Ward, M.P.A., FACHE, FABC, R.T.(R) ARRT, Chief Executive Officer, Washington Health System, for contributing this article. He can be reached at [bward@whs.org](mailto:bward@whs.org).*

