We are in an unprecedented era of financial distress for hospitals across the United States. As business entities, hospitals are among the most complex and challenging to manage, and they face a myriad of external headwinds (e.g., labor challenges, declining reimbursement, physician shortages, aging facilities, rapid changes in technology and innovation, post-COVID effects of consumer behavior and usage). Some hospital closures are unavoidable—the result of market dynamics or health system reconfiguration. Others can be averted if leadership can avoid the following traps that are commonly seen with failed hospitals.

1 Overreliance on Government for a Bailout

Don't get me wrong, government (federal, state, and county) has a major impact on hospital funding, particularly given how prominent Medicare and Medicaid are as a percentage of the insured population. However, expecting the government to come and "save the day" is risky, and there are many other levers for hospital management to pull that won't entail playing the waiting game for a lifeline to survive. We've seen a lot of disappointment in the hospital sector related to a lack of understanding from politicos or just the inability to act.

2 Relying on an Acquisition Alone to Save the Hospital

Many failed hospitals were awaiting a buyer or literally at the negotiation table when they had to file bankruptcy or close. Hospital deals can take a few years to consummate (or fail), and it is not prudent to put all your eggs in that basket. A multifaceted approach to improving the viability of your hospital—simultaneously pursuing performance improvement (to give a longer financial runway), strategic planning with Board involvement (horizontal and vertical integration), and finding a partner—is advisable to avoid a cataclysmic financial event. We are seeing more hospital closures nationally and a significant reduction in acquisitions due to heightened regulatory intervention (DOJ and Attorney Generals levels).

3 Dysfunctional Leadership: Avoiding the Mandate to Change

We are seeing a terrible state of paralysis right now in hospital leadership. It is understandable on some levels, given so many challenges. I believe that the hospital CEO position is possibly the hardest job on the planet, and we are seeing a frightening amount of turnover right now. However, running a hospital properly requires a team of executives that works together effectively, bridges the silos, and has a fiduciary responsibility to put the organization's interests above those of individuals. Hospital senior teams need to learn to work together (possibly seek executive coaching) and educate department managers, only 20% of whom have been formally trained on running a department, according to Stephanie Dorwart, President of Altius Healthcare Consulting Group.

4 Focusing Too Much on the Usual Suspects in Financial Improvement Initiatives

Many hospitals start with a heavy focus on labor (which is often 50% to 60% of total cost), supplies, and cutting programs and services to improve the financial bottom line. There are, however, other areas of opportunity for financial improvement that are usually difficult for hospital leadership to identify on their own. These include pharmacy (340B, revenue cycle, supplies, retail, and PBM—pharmacy benefit manager), equipment maintenance (20-30% annual savings opportunity according to ESP Global), support services, materials management function, energy usage/efficiency (physical plant) and revenue cycle improvements (coding, billing and collections, contract rates, etc.). Hospitals can make significant inroads in these areas, which may minimize necessary reductions in major "lifeline" areas like labor and programs/services. For many troubled hospitals, cuts in these areas can trigger a spiral toward bankruptcy and/or closure.

5 Continuing Reliance on Manual Systems Versus Automated Platforms

There is a myriad of new and developing technological systems/platforms to enhance revenue cycle and cost management functions in the hospital. While people (nurses, physicians, staff) make the hospital go around from a patient care delivery and experience standpoint, the institution's financial well-being will become more reliant on automated solutions that are faster and more efficient than manual systems. Companies such as REPAY (automated payment) and e-Receivables (reducing denials and enhancing collections) are examples of business platforms that can save hospitals millions of dollars per year in cost savings, increased revenues, and accelerated cash generation.

6 Persistence of an Inpatient Hospital, Fee-For-Service Mentality

The old paradigm of "heads in beds" still persists in many hospitals. We continue to see organizations that have overprogrammed their bed complement, have not adequately developed ambulatory/virtual/hospital-at-home capabilities, and have not adopted a value-based care/population health platform. The post-COVID reality is that hospital organizations need to get outside of the four walls as much as possible to enhance access to care, maximize convenience, reduce costs, learn how to take/manage risk, and become more nimble in the market.

7 Trying to Be All Things to All People

In decades past, many hospitals (and physicians) could operate effectively as generalists. Given the high degree of specialization in medicine, consumer and payer expectations for low-cost/high-quality care, and challenges in maintaining a positive contribution margin on many service lines, most hospitals can no longer afford to be all things to all people. This is particularly true in rural markets where the hospital failure rate is the highest. A prudent strategic approach is to embrace essential versus non-essential services, find partners to provide targeted services to the community (minimize risk and capital outlay for your organization), and re-engineer the hospital to focus more heavily on outpatient, virtual services, and home-based care (e.g., remote patient monitoring).

8 Missing Operational Improvement Opportunities in Emergency Department, Operating Rooms, and Hospitalist Functions

On the surface, it may appear that hospitals would have a good handle on these vital areas, given their huge impact on the organization's overall performance and financial condition. However, the juice is usually worth the squeeze in evaluating (or re-evaluating) operations in these areas. We have seen improvements of several million dollars available to individual hospitals as well as opportunities for enhancing operational efficiencies and customer service.

Author**, Eric Themm, is the President and CEO of Zephyr Healthcare Advisors**, and has over 35 years of experience advising hospitals, physician organizations and other healthcare entities. His areas of expertise include strategy, hospital performance improvement, physician network development/workforce needs, transaction assistance/due diligence/FMV, facility planning, and Board planning/facilitation.

Zephyr Healthcare Advisors, a healthcare management consulting firm, works with organizations to help determine if a business combination makes sense, identify proper processes and criteria for evaluation, and avoid the pitfalls identified above in pursuing a transaction.

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