It's Time for Hospitals to Pursue Plan B

July 11, 2022

This weekend, hospital leaders will gather in San Diego for the American Hospital Association's Annual Leadership Summit. The 3-day meeting features sessions about hospital governance, leadership, Covid, health equity, systemness, physician and payer relationships et al plus mingling with the Summit's 75 sponsors.

"Transformation" will be a frequent theme: most hospitals recognize their future is not a repeat of their past. Labor and drug costs are soaring and operating margins are shrinking. Insurers are commanding deeper discounts and hiring doctors. Hospital report cards with disparaging findings proliferate. Private equity is cherry-picking low hanging fruit with $1 trillion of dry powder. Employers are cutting employee health benefits or organizing against health costs. Congress and state legislatures are paralyzed by partisan brinksmanship preventing long-term solutions. Physicians and hospital staff are burnt out. And the public's trust in the health system is eroding. That's where we are.

In her 1983 book Sudden Death, Rita Mae Brown wrote 'The definition of insanity is doing the same things over and over and expecting different results'. That exactly how many hospitals are addressing these storm clouds. Plan A is the formula that's worked in the past—cut operating costs, add ancillary services, raise prices and keep them hidden, merge, outsource, blame insurers, blame the government, blame private equity and play the victim card. Historically, hospitals implemented Plan A balancing their obligations to their lenders, investors, trustees, medical staffs and communities. But Plan A is a short-term solution; Plan B is a decidedly different future state for hospitals. Some will successfully pursue it; others will elect to watch and wait.

Plan B design features reflect three major changes:

- The integration of public health with health delivery….regional systems of health.
- The integration of financing and delivery of care….aligning costs, prices, and competition based on value.
- The integration of self-care in care management….accountability for consumer behaviors.

These presume a shift of care from facilities to homes and self-care devices. These presume an orientation shift from patients to consumers. These presume interoperability and data-driven decision-making by individuals in collaboration with their coaches. These presume a bigger role of federal regulation and heightened transparency.

To pursue Plan B, boards and C suites in hospitals need answers to three questions:

What is the long-term demand and opportunity for health and social services in our region? Is the forecast inclusive of all factors necessary to define long-term strategies? Is the status quo (Plan A) sustainable?
Should our hospital transition to system of health or focus on executing Plan A more aggressively? Do market conditions warrant change? Are partners needed? Are competencies in the C suite adequate? Are capital resources accessible? Is the culture change-averse or welcoming? Is watchful waiting a viable strategy?
How should our capital and human resources investments be modified to execute Plan B? Can the hospital fund Plan A and B simultaneously? If not, which Plan A investments are misaligned with Plan B opportunities?

For academic medical centers, safety net, rural, veterans, children's and specialty hospitals, these questions are equally relevant: they're not confined to community hospitals and health systems.

My take:

Most hospitals are ill-prepared to consider Plan B. Planning processes, lack of data and Board education are major hurdles. Plan A is a death spiral long-term: a facility maximization strategy chasing marginal opportunities. It's time to stop the insanity and seriously pursue Plan B.

Paul