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The return to financial sustainability: 3 imperatives in today's healthcare ecosystem

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Three years after the onset of the pandemic, the healthcare industry continues to experience financial challenges. The last quarter of 2022 showed some promise with margins stabilizing, but in general, margins and inpatient volumes still lag pre-pandemic performance in 2020.¹ By mid-2022, as the pandemic stabilized, there was hope that the dynamics leading to depressed margins were relenting, but it is clear today that is not the case.

The healthcare ecosystem today is fundamentally different from before the pandemic. The pandemic expedited emerging trends as it stressed the industry to continue to provide care. An already strained workforce was pushed even further, creating unprecedented levels of burnout. New digital and retail market entrants increased competition for patients as they moved rapidly to meet patient needs where traditional health systems could not. Digitally enabled care models are demonstrating that care can be delivered successfully in a nonhospital-centric model, reducing hospital-based volumes. And long-existing healthcare disparities were put front and center, creating an urgent imperative to improve healthcare for all people.

These changes will require hospitals to think differently from the past about how to achieve financial sustainability. While the levers that enabled sustainable financial performance pre-pandemic will still be necessary (e.g., productivity management and supply chain optimization), they will not be sufficient. Health systems that utilize the changes to the healthcare ecosystem to their advantage as they embark on their financial improvement journey will fundamentally reduce the cost of delivering care and generate growth while simultaneously improving the caregiver and patient experience. To thrive, health systems should embark on their financial improvement path while following 3 guiding principles.

3 Guiding Principles for Financial Sustainability

1. Let the Headwinds Work for You, Not Against You

The last few years created several dynamics that health systems can use to their advantage to optimize their financial performance, including how to:

- Reduce the cost of delivering care by utilizing advancements in technology, particularly as consumers and providers are willing to adopt them.
- Utilize technology and automation to streamline processes and reduce required human oversight thereby leveraging management bandwidth and capabilities.
- Identify ways to serve more patients with a lower-cost infrastructure by taking advantage of the expedited shift from inpatient care to outpatient, virtual, and nontraditional (e.g., retail-based) care settings.
- Meaningfully address healthcare disparities while it is top of mind for all in the healthcare industry (including patients, providers, payers, and policymakers). Explore ways to incentivize reducing total cost of care by better addressing whole-person needs.

Example Tactics to Improve Margin Amid Today's Headwinds

Virtual inpatient nursing and tele-ICUs.

Artificial intelligence deployment to reduce charting work steps and improve productivity.

Virtual care options (e.g., home as a site of care and telemedicine) that reduce your organization's physical footprint.

"Payvider" relationships that address social determinants of health.

Even with the advent of more options to improve performance, a financial improvement plan still requires health systems to pursue foundational elements that optimize operations and drive performance management and accountability. Foundational underpinnings are essential to drive near-term financial sustainability and to enable other innovations for success. For example, the ability to proactively monitor and manage workforce productivity will drive optimal financial performance—whether in person or virtual care models are deployed.

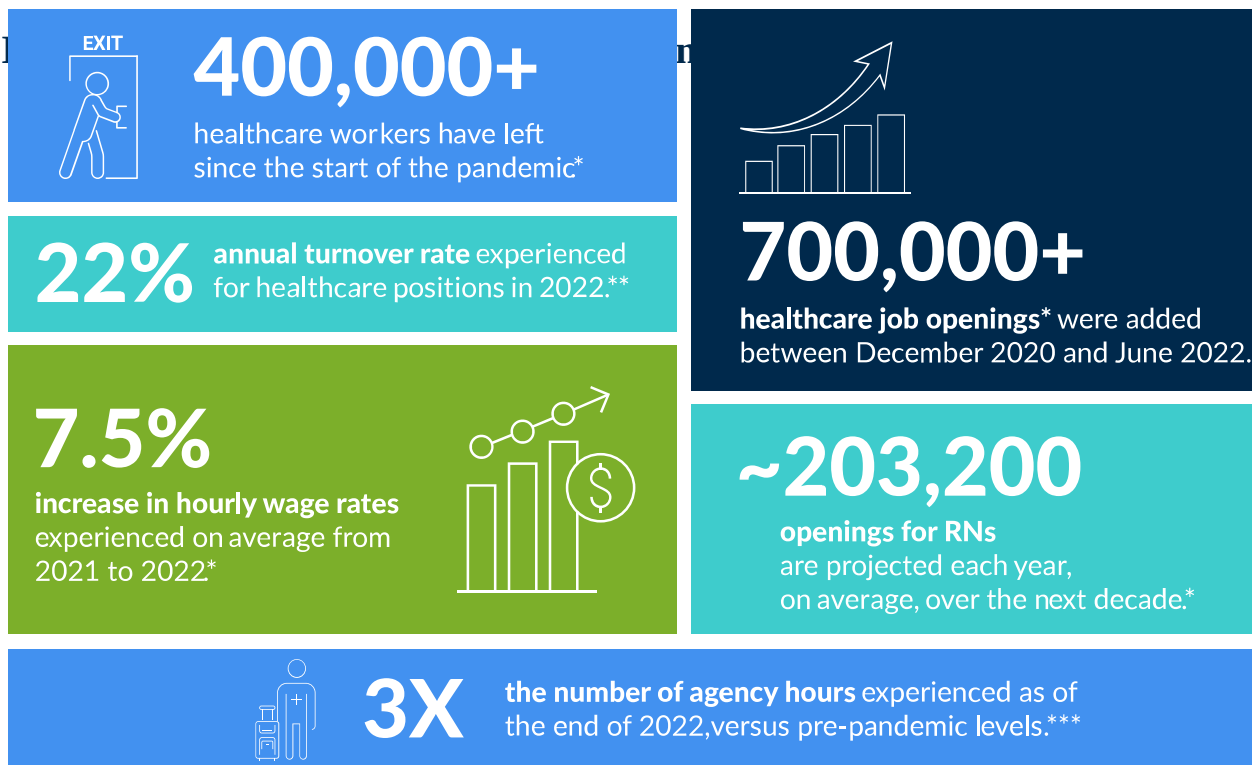
When experiencing significant financial challenges, focusing on how to more fundamentally pivot can feel off base because of the conception that it will always require significant investment. However, this is not necessarily the case. For example, an organization might shift to innovative care options that rely on already existing and/or low-cost technologies, like virtual nursing.

As organizations explore how to take advantage of emerging trends to improve performance, decisions should be rooted in where the organization is starting from culturally and financially as well as the requirements to meet its overarching strategic goals. For example, improving capacity for some organizations may mean making an upfront investment to deliver acute care in patient homes. For other organizations, it may mean seamlessly integrating case management tools into the electronic health record (EHR) to improve capacity through optimized patient throughput. These choices will help their respective

organizations expand patient capacity and increase margins while improving care and advancing organizational objectives.

Workforce By The Numbers

2.1



Sources: * U.S. Bureau of Labor Statistics; **Statista, Industry: Hospitals and Health Systems; ***Syntellis, All Hospital System Benchmark

The pandemic exacerbated burnout among direct caregivers and created workforce challenges that drove a paradigm shift toward more flexible employment models that historically were not common within health systems (e.g., gig work). **Organizations that are able to improve the employee experience and reduce turnover will differentiate themselves from their competitors and secure the stability required for growth.**

The shifts in the healthcare ecosystem over the past several years introduced opportunities to optimize the employee and caregiver experience as well as reduce the cost of care. As health systems determine which improvements to pursue to reduce costs, they should do so with an eye toward engagement of their workforce as well. Examples of such improvements include:

- Taking advantage of the new healthcare dynamics, such as technology innovations, to streamline inefficient activities and improve workforce satisfaction (e.g., introducing artificial intelligence for greater efficiency in the revenue cycle and adopting remote monitoring technology to improve clinical

productivity).

- Implementing new care models that promote top-of-license work for all clinical and support members of the care team to improve job satisfaction while also better meeting patient needs.
- Establishing employment models and staffing solutions that better reflect workforce demand for flexibility and that foster increased interest in employment within the health system environment.

When in crisis mode, initiatives to improve engagement are often not prioritized due to lack of bandwidth and the length of time to realize financial benefit. However, as organizations seek long-term workforce stability, this is an important area of focus that can have significant financial benefit. For example, a recent study by Jarrard, Inc. found that investment in communication training for front-line management, promoting connectivity, and creating an environment of value and respect can go a long way to improve front-line staff engagement. Addressing caregiver burnout head on and in a more intentional way will also create a more supportive environment and reduce turnover.

3. Rather Than Sideline Your Strategy, Align Your Efforts With It

With over half the hospitals across the country operating below a -2% operating margin, many health systems embarking on financial improvement journeys are doing so in order to survive (see figure).



When in survival mode, it is understandable that the primary focus is on realizing savings quickly—which generally leads organizations to prioritize initiatives that will improve cash acceleration over strategic investments. However, even in significantly stressful financial situations, opportunities exist to advance strategic goals through aligning operations to meet your strategic needs while also improving finances.

In fact, significant financial strain can be what creates the opportunity to pursue tough yet strategically aligned and financially beneficial efforts that were historically challenging to pursue and therefore put off. For organizations in a dire financial state, there are only so many ways to effectively drive speed to value. Because many of them have broader strategic implications (such as reducing the workforce, rationalizing services, and making greater programmatic changes like management restructuring or partnerships that offer financial stability), the tough decisions that will drive rapid margin realization must be made with the broader strategic context and altered healthcare landscape in mind if the tactics are to succeed.

For example, the provider enterprise is one of the greatest assets of health systems, but it can also be one of the most challenging areas in which to execute change. Thus, there is often significant opportunity to better align the physician enterprise with the clinical needs of the community (e.g., mix of services, care models). The burning platform of financial strain can be the driving force to execute the challenging change that will drive both financial and strategic gains.

Organizations with a solid financial position that do not have an imperative to rapidly improve margin can prioritize more aspirational improvements that will help them achieve long-term strategic goals over initiatives with rapid realization timelines. Regardless of the financial position and the timeline for margin improvement requirements, efforts should always align with the broader strategic aspirations.

Seize the Opportunity to Define a Unique Path to Sustainability

After several years of crisis, the healthcare industry now has a fundamentally altered ecosystem with which to contend. In times of stress, it is easy to see only the downsides. But crisis also breeds opportunity—and that adage could not be truer in healthcare today. Health systems have been working tirelessly over the last three years to respond to various challenges and continue to work through and address the financial impacts to the industry and their bottom lines. As organizations chart their unique path to sustainability, it should be done with consideration for how the opportunities brought on by the changes of the past 3 years can make the difference between simply addressing the short-term needs of today vs. the needs of today while also the more fundamental changes that will establish the organization for future success. Organizations that take advantage of today's ecosystem to harmonize the engagement of their people and strategic positioning can fundamentally improve both margins and the caregiver and patient experience. These organizations will forge a path to success.

1 FitchRatings, "[Early NFP Hospital Medians Show Expected Deterioration; Will Worsen](#)," March 2, 2023.

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