Hospitals slow to embrace future, survey finds

J.K. Wall December 16, 2013

Hospital executives, in spite of mounting financial pressures under their older business models, are stepping cautiously into the future, according to a new survey by Purdue Healthcare Advisors and a new analysis of not-for-profit hospitals published by Standard & Poor’s Ratings Services.

Nearly half of hospital executives, 46 percent, say they have no plans to launch an accountable care organization or a similar value-based business model soon, according to the Purdue survey. It was conducted by Resolution Research in October via interviews with 206 hospital executives nationwide.

The results have a margin of error of 6.8 percent.

The survey also found that 89 percent of hospital executives are concerned with their hospital’s ability to address cost pressures.

“Hospital executives are charged with enhancing patient care and managing margins with a shrinking workforce and diminishing patient volumes,” said Mary Anne Sloan, director of Purdue Healthcare Advisors, a consulting practice for health care organizations started by Purdue University in 2005.

The new forms of reimbursement, often grouped under the heading population health management, are being advanced by President Obama’s Affordable Care Act, as well as by employers and health insurers. But the dollars in the population health-based programs are a small percentage of hospitals’ overall revenue, even for the minority of hospitals that have launched such initiatives. That’s what analysts at Standard & Poor’s reported Dec. 10 in their 2014 outlook for not-for-profit hospitals.

“Most are attempting to move their care delivery practices for all patients toward practices that would perform well under population health delivery models,” about the hospital systems they cover, which tend to be fairly large. “However, since most of their business is still reimbursed on a fee-for-service basis, they are finding that revenue and volume is dropping without commensurate revenue from a new business model.”

Indeed, all four of the largest hospital systems operating in Indianapolis have laid off workers this year because their number of patients has declined or failed to meet projections.

This has produced a paradox in the hospital market. Even though the new payment models are focused on keeping patients out of the hospital and out of operating rooms, the resulting decline in revenue has forced hospitals to compete more aggressively than ever for every patient.

“With the often unspoken goal of simply maximizing returns on existing infrastructure for as long as possible, most providers are fighting for every patient, especially on the remaining inpatients in highly profitably service lines,” the S&P analysts wrote. “Heightened competition is expensive, time-consuming, and given the evolving industry and additional expected changes with further implementation of health care reform, potentially counterproductive, demonstrating how hospitals are often caught in a difficult situation with opposing incentives.”