



Newsletter

MEDICAL AFFAIRS CEO UPDATE

The Reardon Group of Companies:
Reardon Consulting, Inc.
Healthcare, Financial & Management Consulting

Weiss + Reardon & Company, P.C.
Healthcare Accounting and Tax Services

Valuation Advisors, Inc.
*Valuations for Practice Mergers & Acquisitions,
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Strategic Planning Today

Then and Now

For years, hospitals conducted their long range and strategic planning with one eye on the hospital's financial performance and the other on utilization of its services. These performance indicators usually are related to the sustainability of the hospital's market position. Sustainability of market position typically related to population demographics and the nature of competition. The reimbursement system was relatively predictable.

Now, with changes in reimbursement and reductions in rates, hospitals need volume – ways to produce more admissions and procedures. Unless the service area population is increasing and is economically stable, these changes produce increased competition. For larger, market dominant hospitals this situation can create opportunity. For smaller and for many rural hospitals, the future can be quite challenging.

Some Important Considerations

Some college management theory courses discuss a subject called 'Stakeholder Theory.' Every organization engaged in business has stakeholders, typically its owners, customers, employees, the community in which it is located, and its suppliers. For the non-profit hospital, the typical investment and income interests of owners are distributed among the customers (people whom the hospital serves), the employees (who often live locally), and the local community (local businesses, suppliers, contractors, etc.) Each of

these has a "stake" in the hospital. This fact suggests some practical steps for strategic planning.

The Reardon Group *Strategies for Resolution of physician-driven issues*

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Identify Your Stakeholders

In the past, hospitals typically initiated strategic planning with a study of the "service area" (usually defined as the area from which we draw patients) and the ability of the hospital to draw patients who originated in that service area. Review of that ability to draw entailed a serious review of market share: (a) where do patients living in the localities from which we typically draw go for hospital services? (b) what portion of patient activity does each of those hospitals draw? and (c) what can our hospital do to improve our market position?

In today's environment, this is the starting point but in itself is not enough for most hospitals. It is highly useful to identify who/what at this time are the stakeholders in each relevant category.

Identify Stakeholder Interests

Each of the stakeholder categories comprises people, organizations, businesses, etc. each of which has some stake or interest in the hospital. One way to get to the point is for hospital management and its board to review in each category who/what would miss the hospital if it suddenly evaporated? It is important to consider the interests of physicians in each specialty of the medical staff in this review.

What would each group or entity miss?

If our hospital evaporated, what would these stakeholders lose? This begins to realistically identify what the hospital contributes and the real value that it has to each. This analysis should include the interests of businesses and other organizations in the area as well as the interests of physicians. Their welfare and interests depend in varying degrees on the hospital and its activity.

Identify Options for Stakeholders to Fulfill Their Interests

This step requires brutal honesty on the part of management and board. It is possible that patients can find service elsewhere.

Some hospitals may find that the patient clientele that really depends on the hospital is not enough to sustain the configuration of services currently offered. Yet, there are other stakeholders who would be seriously impacted if the hospital were no longer in business.

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What Next?

Can you sustain the Hospital in the environment it faces?

Stakeholder analysis helps a hospital realistically review its market position. That analysis needs to be partnered with a realistic assessment of the future of health care reimbursement.

It seems obvious that the present reimbursement system and the incentives that it extends to providers can't be sustained. It seems given that the health care industry eventually is in for some significant restructuring.

Some signs are in the air. CMS has been working on pay-for-performance for several years. Shifting from paying for volume to paying for quality and outcomes seems inevitable, and that shift will entail some significant changes in the way the provider sector of health care is structured.

So, the question facing hospitals is: Are you going to be able to sustain your enterprise?

If Yes, how? If No, what are your options? And what about the community in which you are located and its organizations and businesses?

Relationships among providers

The findings derived from the exercises presented in this CEO Update can provide any hospital with the information needed to meet with physicians, other health care organizations, and representatives of local entities. It helps answer the question: what must be preserved for the benefit and welfare of our stakeholders and what can we give up?

The Reardon Group specializes in helping medical practices and hospitals define issues of mutual interest and develop integrated solutions.

Contact

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Specialists in Physician-Driven Issues

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