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Strong leadership will help turn around the difficulties that the hospital industry is facing

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The economic decline is continuing to ravage the nation's hospitals, with half of them operating in the red and many planning service and staffing cuts, two new reports show.

Hospitals are ailing because of a number of problems hitting in close succession. First, hospitals' investment incomes plummeted - like everybody's - eliminating a cushion for operating budgets and curtailing capital spending.

Then, the mix of patients began to shift: Paying admissions declined as people put off elective procedures and insurers tightened their grip on the length of hospital stays they covered. And the number of patients without insurance or the means to pay their part of the bill began to rise.

These problems have been surfacing for several months. But new data show their breadth and depth. Indeed, an unprecedented 50% of the nation's hospitals appear to be losing money, according to an analysis of government and proprietary data from Thomson Reuters. When the slide began, returns on investment were the primary culprit, according to Thomson's analysis of data on a cross-section of hospitals. Total margins for every type of hospital - public, private, for-profit and nonprofit - declined in 2008, the analysis found.

Hospital operating margins - the extent to which operating income exceeds expenses - remained fairly consistent through the third quarter of 2008. But non-operating margins, composed primarily of investment income, started to fall in late 2007, and the decline accelerated in mid-2008. "This dragged down the median total margin to near zero and left approximately 50% of hospitals in the red," the analysis concluded.

The 25% of hospitals in the worst shape posted margins below -7%, or 7% worse than the break-even point, while the top performers' margins exceeded 4.5%.

Even operators of the most robust hospitals are bracing for another difficult year as the effects of layoffs and employer cuts in health insurance benefits take hold. Charity care numbers are expected to go up as a result of the current economic situation, and bad debt will go up as well as people who are unable to pay their bills. And in all likelihood these changes will hit all hospitals. Those who are already in negative revenues will probably see that get worse as things go along.

Forty-four percent of hospitals have seen declines in surgeries, with hip procedures showing the steepest drop-off at 45%, according to another new survey. As a result, 47% of the hospitals surveyed expect to make staff cuts, and 69% plan to cancel or delay equipment purchases, according to the survey by Novation, a company that manages supplier contracts for hospitals.

Novation has responded by demanding that vendors maintain or roll back prices on the goods they sell to hospitals.

Lastly, a "rapid response" survey released by the American Hospital Association concluded that hospitals posted negative profit margins of 1.6% in the quarter ended September 30, 2008.

Hospitals concluded the same quarter of the prior year with a positive 6.1% margin, according to the survey. The report was based on data gathered from 736 hospitals in 30 states that responded to the AHA's questionnaire.

The downturn has left many hospitals pondering staff reductions, or reducing services. The financial pinch comes amid falling revenue, declining admissions and negative investment earnings, even as experts predict that high unemployment will lead to more patients seeking uncompensated care at emergency rooms.

American Hospital Association officials used the findings to bolster their pleas to lawmakers in state and federal governments not to decrease Medicaid and Medicare payments. On November 13, 2008, the association urged lawmakers in Washington to approve a temporary increase in the federal medical assistance percentage, similar to the $10 billion boost Congress approved in response to the 2001 downturn.

Although the industry will be experiencing problems in the near future, turnarounds on an individual facility basis are possible and will result primarily from strongly-led team-based effort on several different fronts. If there is any "silver bullet," it is this vague, difficult concept of leadership. Those who have led turnarounds did these things well:

1. Rallied their leaders around them. And if they didn't have strong leaders already, they hired them. Hospital leadership is hard enough even in good times.

2. Attacked the problem on multiple fronts. They simultaneously cut costs (revamped staffing practices, renegotiated their credit, renegotiated supply cost), increased revenues (cycle management, denials management, contract negotiations, new channels for referrals, marketing new points of differentiation), and improved employee morale.

3. Focused on the key opportunities. Despite the multi-pronged approach, these leaders didn't try to solve everything at once. They focused on the high-impact areas first.

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