

# Community Hospitals: Meeting Challenges Through Innovation

*By Ralph DiPisa, Partner, Phillips DiPisa*

One thing is certain: It's not easy being a community hospital executive today. While all hospitals face challenges in our rapidly changing industry, community hospitals find themselves in a particularly difficult environment. And the challenges confronting community hospitals as a sector - challenges which range from increased competition to access to capital - have important implications for the entire U.S. healthcare system.

That's because community hospitals are essential providers of healthcare in cities and towns throughout the country. They are in many ways the cornerstone of our healthcare system - and constitute the frontline of hospital care for many Americans. Whether you are an executive at a large urban teaching hospital or at a small community hospital, the health and vitality of the community hospital sector has ramifications for your institution.

With that in mind, we recently asked some community hospital executives about the biggest issues they see community hospitals facing as a sector - and about ways their own institutions are addressing those challenges. Of course, every community hospital's culture is unique. (In fact, I've been known to joke that, if

you've seen one community hospital, you've seen...one community hospital.) But, despite their individual differences, some common themes emerged from our conversations. In this white paper, I'm pleased to share three of them with you.

## **The Threat Of Increasing Competition, Especially From Physicians Themselves**

It's not surprising that this is a "hot-button" issue for today's community hospitals. Specialty service providers - such as ambulatory care centers and imaging centers - are free to focus on providing profitable services to well-insured patients. Often partially or fully owned by local doctors, such centers compete with community hospitals for profitable services, while community hospitals still must provide less profitable services and care for the uninsured. Small wonder that community hospital executives are concerned.

For community hospitals in some areas, physician-owned specialty hospitals are an additional worry; in a 2005 American Hospital Association survey of community hospital CEOs, 30% of the respondents said that physician-owned, limited-service hospitals operated in their area.<sup>1</sup>

How can community hospital executives respond to increasing competition? One key is differentiation. There are a variety of ways to stand out from the competition - and the

<sup>1</sup> American Hospital Association, Taking the Pulse: The State of America's Hospitals (American Hospital Association, 2005): 2-8.



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increasing emphasis on transparency in clinical performance offers an opportunity for hospitals that have good results to let that be known.

For example, Thomas A. Biga, Executive Director of Clara Maass Medical Center in Belleville, New Jersey, a 465-bed hospital that is an affiliate of the Saint Barnabas Health Care System, explains that the state of New Jersey issues an annual hospital report card that, as an indicator of quality of care, measures hospitals' adherence to best practices for treating three common conditions: heart attacks, pneumonia, and congestive heart failure.<sup>2</sup> Clara Maass, Biga says, takes the indicators, which involve adherence to evidence-



based medicine protocols, very seriously – and ranks among the top hospitals in the state in the New Jersey 2006 Hospital Performance Report.

Biga indicates that Clara Maass has achieved its high marks thanks to a strong collaborative effort among its physicians, administrators, nurses, and other staff, with a great deal of attention paid to adherence to medical best practices. Clara Maass has then capitalized on its strong performance through public relations and marketing activities, including press releases to local media outlets and advertisements in local newspapers. Physicians affiliated with the Hospital received letters of congratulations and copies of the ad for display, and the Hospital held ice cream celebrations to thank and congratulate staff.

Community involvement is another means of differentiation for community hospitals, because it allows them to increase their relevance and value to their localities. Michael V. Sack, President and CEO of Hallmark Health, a nonprofit healthcare system serving some of Boston's northern suburbs, has developed an intriguing approach to community outreach. Since Sack took the helm in 2003, he says Hallmark Health, which includes a 134-bed hospital, Lawrence Memorial Hospital of Medford, Massachusetts, and a 234-bed hospital, Melrose-Wakefield Hospital, has emphasized rebuilding its connection to the communities it serves.

Sack says he asked employees living in Hallmark Health's core communities if some employees would be willing to volunteer on a community outreach team representing their town. Hallmark Health then gave each of the teams small amounts of financial support and encouraged them to find opportunities to support that town and its organizations. As a result, he says, the Hospital is involved in a wide variety of community outreach efforts, working with a range of groups – from town administrators to schools and Chambers of Commerce.

Through the outreach team program, Hallmark Health has supported programs ranging from sponsoring road races to planting flowers, serving meals, and donating a defibrillator to a senior center. Sack reports that the outreach program has been very successful – and has resulted in good publicity and valuable goodwill. And the organization is seeing an increase in usage by its communities: Hallmark Health saw a 3.3% increase in inpatient population volume in 2006.

### **Adequate Access To Capital – Especially To Fund The Acquisition Of New Technologies**

Access to capital can be challenging for community hospitals, in part because of the uncertain reimbursement environment hospitals face over the longer term.<sup>3</sup> At the same time, however, new – and often expensive – technologies

<sup>2</sup> A copy of the New Jersey 2006 Hospital Performance Report is online at <http://web.doh.state.nj.us/hpr/docs/2006/report.pdf>.

<sup>3</sup> For a detailed discussion of this issue, see James J. Unland, "Can community hospitals survive without large scale health reform?" *Journal of Health Care Finance* 30.3 (Spring 2004): 49 (10).

continue to be developed. Moreover, it's been predicted that hospitals will increase their spending on information technology in the next few years – as they increasingly adopt technologies such as electronic medical record systems.<sup>4</sup> What's a community hospital executive to do?

Here, too, Sack has taken an interesting approach. After taking a hard look at the services it provided, he says, Hallmark Health decided to sell some of its underperforming or nonessential assets. These included office practice properties, a vacant hospital building, a nursing home, and a durable medical equipment company. "We needed capital to develop our core medical services, and additional borrowing was out of the question," Sack says. "So we raised our own capital" in this way. A delegation that included the CEO, the CFO, and the chairperson of the Board visited the bond rating agency and described the changes and the plans to rebuild Hallmark Health. Sack adds that Hallmark Health has had four bond rating upgrades in three years. "They must have liked what we had to tell them," he notes.

Affiliation with a larger institution is another way that community hospitals may increase their access to capital. Biga points out that Clara Maass, which joined the Saint Barnabas Health Care System in the 1990s, benefits from better access to capital as part of the Saint Barnabas System – and also benefits from the fact that a healthcare system has more leverage negotiating reimbursement rates than a smaller, stand-alone institution.

Affiliation with a larger institution can have other pluses, as well. The community hospital benefits from the branding of the larger organization and probably has an edge in physician recruiting. On the other hand, community hospitals and their constituent communities often fear a lack of autonomy and control in the event of an affiliation with a larger institution.

The question of whether to affiliate with a larger hospital or system – and if so, in what way – is particularly pressing for community hospitals located near large urban areas. Executives and trustees at many such community hospitals are asking themselves: What is the appropriate relationship for our community hospital to forge with a large in-town hospital? And, if we affiliate with a larger organization, what happens to our own institution's identity?

### **Managing The Hospital's Human Capital Effectively**

Retaining staff in an era of shortages of skilled medical workers, such as nurses and physicians, is another key issue for community hospital executives – and, in fact, it's an issue so wide-

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spread and well-known in healthcare that I hardly need to say more about it. Suffice to say that, faced with workforce shortages in a variety of professions critical to the functioning of their hospitals, smart hospital executives are thinking about ways to reduce turnover by creating the kind of workplace that skilled medical employees want to come to – and stay.

In addition to the challenge of recruiting and retaining nurses and other staff members, the relationship between physicians and hospitals is fraying these days. Not only may physicians be competing with hospitals for revenues, but also a new generation of doctors is generally less interested in working long hours and covering emergency room duties. In a 2006 survey, 38% of hospitals reported that they have to pay some or all specialists to be on call to cover the

<sup>4</sup> My colleague Dan Phillips synthesized several expert opinions on this and other key topics in his recent white paper "Trends in Healthcare Strategy: The Year Ahead – And Beyond" (December 2006). You can find that white paper on our website, [www.PhillipsDiPisa.com](http://www.PhillipsDiPisa.com).

emergency room,<sup>5</sup> and in a 2005 survey, 41% of community hospitals reported that they had at some point during the preceding 24 months lost specialty coverage in the emergency room.<sup>6</sup>

There are no easy solutions to the challenges hospitals face in managing their relationships with physicians, but new models are needed – and community hospitals are experimenting with new approaches. For example, Lou Giancola, President and CEO of South County Hospital Healthcare System, based in Wakefield, Rhode Island, reports that a challenge for South County is figuring out how it should structure its relationships with physicians in an era in which doctors at times increasingly compete with hospitals. What South County tries to do, Giancola says, is anticipate that competition and work with the doctors.

South County Hospital, which is a 100-bed acute care hospital, has also, in some cases, had to hire doctors as employees, absorbing the entire obstetrics practice and also hiring a general surgeon in order to ensure adequate general surgical coverage. South County, Giancola adds, has recently developed a medical staff development plan, and the board and management are thinking through the question of how the relationship between doctors and the Hospital is likely to evolve – and whether the hospital will employ more doctors going forward. South County has also, Giancola says, formed a partnership with its orthopedic group in order to launch a new center for orthopedics within the Hospital. This partnership repre-

sents a new approach for South County. “It’s the closest, I think, we’ve ever worked with one physician group,” Giancola explains.

### **The Future Of Community Hospitals – And Their Importance**

Behind all of these issues lies a larger question: What will be the role of the community hospital going forward? Historically, the local hospital has long been a source of pride for a community. Yet today, community hospitals are in many ways facing a thankless task: They are expected to provide care to everyone, regardless of ability to pay, yet they face competition for more profitable services.

But the fact remains that community hospitals are essential components of the healthcare system – and are critical to the system’s capacity to respond to a disaster or any other healthcare emergency. As community hospital executives and trustees seek out innovative solutions to the challenges their institutions face, their task is an important one. Ultimately, the success of community hospitals as a sector matters not just to each individual institution and its stakeholders – but to the entire healthcare system and to society at large.

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<sup>5</sup> American Hospital Association, The Migration of Care to Non-Hospital Settings: Have Regulatory Structures Kept Pace with Changes in Care Delivery? (American Hospital Association, July 2006): 10.

<sup>6</sup> American Hospital Association, Taking the Pulse: The State of America’s Hospitals: 4-5.

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