Bloomberg Law News

# Crisis in Rural, Community Hospitals Requires Shifts in Strategy

2021-03-05

For the past year, news headlines have focused on the toll Covid-19 is taking on health-care workers, providers, and, importantly, patients. In the background, many health-care executives focused on another significant impact with potentially long-term consequences: numerous hospitals and providers face significant operating losses as elective procedures and outpatient visits have been deferred or delayed during the past year.

This reality is especially true for community and rural hospitals, some of which will require guidance from outside professionals to navigate insolvency and bankruptcy to survive. For example, before Covid-19, more than one-fourth of rural hospitals faced a risk of closure due to persistent financial losses and low or non-existent financial reserves—and Covid-19 likely made things worse due to increased costs and lower patient volume, according to a recent article in Becker's Hospital Review.

## Unique Challenges

While financial distress is common for many businesses, community and rural hospitals face unique challenges that their outside legal and business advisers should consider.

**Voluntary Governance.** Volunteer directors are often invited to serve on a board due to fundraising prowess, community prominence, or other reasons unrelated to health-care savvy. In good times, with a strong senior leadership team, this can work well. However, it may place these directors and their organizations at a disadvantage during a period of financial instability.

**Inexperienced Management.** Senior leadership may be skilled at balancing financial demands under normal circumstances but may not have experience doing so during economic distress. At the same time, management may have to face these challenges without a board of directors that is knowledgeable about health-care restructuring. This inexperience may require management to look for outside help to develop necessary restructuring plans and changes.

**A Changing Business Model**. Community and rural hospitals historically built their business models around trying to "be all for all"—meaning, they often try to provide a wide variety of services to give their community as many local options as possible. However, this model may no longer be viable, and some community and rural hospitals may be vulnerable to competition from investor- or privately-owned ambulatory sites that can provide certain services at a lower cost and with better access.

## Recommendations for Change

In light of this, professionals advising community or rural hospitals should consider whether it is appropriate to make some or all of the following recommendations to clients now.

- Strengthen the governance and consider adding a new director with financial oversight expertise. At the same time, existing board members should ensure they understand the current financial reporting to know their organization's viability. These efforts will help to guide directors as they exercise fiduciary duties and consider the organization's charitable mission.
- Organizations should consider a review of service lines to identify areas for growth or contraction. Continuing to "be all for all" may jeopardize health care "for all" if existing service lines are unprofitable or provided in an unsafe manner on an everyday basis.
- Focus on staffing and support for staff. Under the current circumstances, retaining quality staff and ensuring they have the necessary personal protections and tools for their work is critical. Further, organizations must remember that employees need downtime to recover from the impact of Covid-19. The use of creative recruiting and different staffing models (*e.g.*, mid-level providers and midwives) may help ensure coverage and protect patients.
- Evaluate long-term strategic relationships with other providers. These relationships can range from clinical affiliations and partnerships to alternative structures to deliver health-care services, operating alliances, or a transaction to create or unified system. Once the board has selected a strategic path, consider all available processes to achieve the goal, including in- and out-of-court restructurings to facilitate a sale of assets or cleanse a balance sheet.

There's no doubt that there are costs associated with these actions. However, during a period of financial distress, prioritizing spending and developing a survival strategy becomes the highest priority. There is no reason to "rush" to complete a large capital project if there are questions about the organization's viability.

In other words, just as eliminating unnecessary costs is essential, so, too, is engaging in a careful process to determine what is critical in the first place and how to protect it.

Last, throughout any financial distress period, management should ensure that communications with employees, trade creditors, and lenders are clear and concise with expectations set at a realistic level. A failure to meet expectations can cause parties to lose confidence in the organization’s leadership or take actions to protect their financial interests. Such actions can accelerate instability and crisis.

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