

The Intersection of Mission and Margin

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As health care has transformed from a nascent local patchwork of services to one of our country's leading industries, hospitals hold steadfast to their missions that have roots going back a century or more.

The precursors of many of our country's public and non-profit hospitals were almshouses or sanitariums created by municipalities or religious orders. These institutions treated the infirm and indigent and were funded largely by benevolent organizations, local public coffers and personal donations. Patients paid whatever and however they could for care. In detailing their institution's history, hospitals fondly evoke early 20th century fundraisers held by school children, women's auxiliary groups and the like to purchase medical supplies and equipment.

Today, hospital care in the U.S. is a trillion-dollar industry. Mega-mergers among health systems are announced with increasing frequency. New access points are springing up outside the walls of hospitals. Municipal taxpayer funding for publicly-sponsored systems and for non-profit tax exemptions is tenuous. Naming rights are negotiated with endowments for select organizations able to attract big donors. All of this falls against a backdrop of unstable government- and employer-based health coverage policies, declining reimbursement and burdensome out-of-pocket costs for consumers.

So much has changed, but the main tenets of every hospital's mission have remained the same: ensure access to compassionate, quality care and advancement of community health.

Yet, as any CEO will tell you, a modern charitable bent may earn a tax exemption, but it does not ensure the revenues necessary to keep a hospital's doors open. No margin, no mission. Without a functional hospital, charitable endeavors are moot. The need to fulfill a hospital's historic altruistic mission must be reconciled with the need for that hospital to successfully operate as a business in a complex and competitive industry. These drivers are not diametrically opposed; they are the reality of the American health care system.

Hospital leaders are charged with preserving their institution's mission by interpreting it with a contemporary lens and setting a course of action that will ensure the hospital's ability to serve its patients and stakeholders in the near- and long-term: from maximizing the deployment of resources to best serve the community and operate efficiently, to cultivating mission as a staff motivator, to proactively identifying and filling gaps as access to care and population health indicators fluctuate.

Either out of foresight or financial necessity, hospitals of all sizes are exploring partnership opportunities. A partnership can help a hospital advance care quality, shore up its administrative and clinical operations, and gain meaningful scale. Above all, the key area of alignment hospitals seek in a partner: mission.



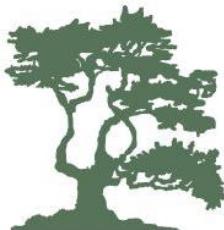
The Intersection of Mission and Margin, continued

Hospitals and suitor health systems generally find firm common ground when it comes to mission. What can cause stress, however, are concerns about dilution of local control or differences in ownership structure and the implications for a hospital's mission. In evaluating potential partnerships, a hospital board must assess the feasibility of continuing as a standalone in an industry that increasingly rewards scale and systemization, as well as benefits and drawbacks of joining a larger organization, taking a hard look at which outcome truly aligns best with the hospital's mission.

The days of every neighborhood or small town having its own independent hospital have passed. It is not financially feasible nor clinically appropriate. It is incumbent on each hospital forge its own future in the modern health care landscape on behalf of its community. A hospital Board and management team have a responsibility to routinely assess its mission.

- **Relevancy:** Does the hospital's mission still reflect the needs of its community? What unique role does the hospital play in the regional health ecosystem?
- **Fidelity:** Is the hospital true to its mission? How is the hospital advancing its vision for its community? Is the organization prioritizing independence over mission?
- **Recognition:** Is mission top of mind for leaders and staff in their day-to-day work? Do patients and stakeholders perceive the hospital as a provider of mission-driven care?
- **Sustainability:** Does the hospital have the resources and expertise necessary to uphold its mission now and in the future? If not, what are possible alternatives to preserve the hospital's mission?

A hospital's primary purpose is to care for its community, protecting life and livelihood, regardless of its size, ownership, or geography. Too often, the actions necessary to ensure access to care in a community can be stymied by local politics and insular tendencies. The most successful hospitals are those that are forward-thinking, informed and nimble. Hospital leaders must continually evaluate the underpinning of their mission, how it relates to their service to the community today, and take a mission-forward approach to strategic decision making to ensure long-lasting fiscal and philanthropic sustainability.



Juniper Advisory is an investment banking firm dedicated to serving hospitals and health systems, providing objective financial advice and guidance on strategic partnerships. More information is available at juniperadvisory.com.