TRIPPING COVENANTS?

As we start to emerge from the first wave of COVID-19, most hospitals fall into two groups:

- The first group was at least partially overwhelmed with COVID-19 patients, shortages of PPE and staff stress that tested systems and leadership like never before.
- The second was a provider who shut down revenue-producing operations, stocked up on supplies and urgently prepared for patients that never came. One hospital CEO described it as "I have never worked so hard to take care of such few patients."

One outcome is consistent: even the largest, best capitalized Systems are now facing financial issues that will require a focused, intentional effort.

For an organization in danger of tripping bond covenants, here is your plan of action:

A FINANCIAL TURNAROUND

Your cash flow runway does not require pre-emptive bankruptcy, but you anticipate that you will trip covenants on your bonds without aggressive action. Evaluate how your modeled performance will affect your ability to meet your covenants and take pre-emptive action to communicate with your bond holders to address those issues. Hire resources with deep experience with work-out processes and negotiations with lenders to help assess options and manage through the process.

Regardless of how dire your financial situation is, it is clear you will need to pursue some level of Financial Turnaround to overcome the impact of the crisis. The bigger the gap and the faster the timeframe, the broader and deeper the process will need to be. There is a discipline and an urgency associated with these types of efforts that can tax even the most successful and talented organizations.

Traditional **Operating Levers** – productivity, revenue cycle, supply chain, purchased services, and tactical growth - generally yield the fastest results; however, the total improvement from these levers will likely not fill the gaps in performance – especially if your operation was running lean before the crisis. The lessons learned from the crisis will create opportunities to redesign operations to achieve even greater levels of productivity - particularly if you can complete that redesign before the operation "snaps back" to its old ways.

- **COVID-19 Documentation.** Pay particular attention to understand the requirements for extraordinary reimbursement related to your COVID-19 expenses, continually train and monitor your staff to ensure you are capturing that documentation (especially with remote work) and follow up on these claims in an extraordinary way. Do not overlook claims potentially related to COVID-19 that were incurred prior to the release of supplemental billing opportunities.
- **Assistance Programs.** Dedicate resources to researching, identifying, and applying for funds from special programs for loans, forbearance, and assistance with expenses, including maintaining any special documentation that may be required to qualify for the assistance.
- **Revenue Integrity and Yield.** You will need to intensify your efforts around known revenue integrity and yield opportunities, paying particular attention to charge capture in those areas with special opportunities to bill for services that you have not been able to bill for (e.g., telemedicine). As always, revenue cycle is the "gift that keeps on giving" and is one of the more painless techniques available. Squeeze every dollar here that you can.

- **Productivity.** Unless you simply have no choice, avoid the temptation to “slash and burn” without addressing underlying issues with productivity. Changes like these rarely last and can create an opportunity for a well-funded competitor to take advantage. Instead, work to rapidly redesign your work to take advantage of lessons learned from your response to the crisis (e.g., work that could be deferred or eliminated, new approaches to work that eliminated unnecessary steps or approvals, new roles / cross training / decision rights that enabled more efficient processes, etc.) before the organization "snaps back" to its old behaviors.

- **Supply Chain.** Accelerate your efforts to improve the known opportunities for improvement and expand the scope of the improvement efforts that you have been willing to undertake, particularly related to physician preference item pricing / utilization. Include Purchased Services as well, including maintenance agreements, software agreements, physician contracts, etc.

- **Tactical Growth.** Accelerate your efforts to grow known opportunities, with an emphasis on your organization’s ability to open split operations ahead of competitors and capture high margin backlog from traditionally splitting physicians. If you have limited capacity to reopen, pay particular attention to prioritizing the cases where you are at risk of losing splitting physicians to competitors.

- **Benefits Cost.** Self-insured healthcare costs are a relatively unmanaged line item on the income statement. Typical solutions involve adjusting plan design and deductibles and can be a “third rail” of employee relations. There are proven, relatively simple approaches to radically reducing self-insured healthcare costs without changing plan design, but the current incentives of brokers, insurers, and PBMs have worked to obscure them. Now is the time to pursue these high value initiatives.

Assuming the gap will be too large to close by using traditional Operating Levers alone, you will need to consider **Portfolio Levers** such as shrinking / closing services, growing services, outsourcing services, and insourcing services. It usually takes a while to decide to act on Portfolio Levers, but then they are usually fast to implement. The urgency of this situation may speed up your ability to make these difficult decisions. Given that you will have stopped many services, take the opportunity to consider how aggressively to reopen those that have been "on the bubble" in the past.

Most organizations have a list of services (clinical programs, community service programs, administrative and support services, etc.) that have been "on the bubble" regarding their performance in the past but have been "sacred cows" or considered necessary “discretionary investments.” In the absence of a crisis, organizational inertia generally keeps these services around. Given that you will have stopped many services, take the opportunity to consider how aggressively to reopen those that have been "on the bubble" in the past.

Emerging from the crisis, there may be programs that are ready for rapid expansion, especially those programs where you can capture a disproportionate share of the backlog and services that will be enabled by new ways of doing business (e.g., telemedicine). Redirecting resources from the services you choose to shrink / close will allow your organization to move more aggressively on these areas of expansion.

Managing through the crisis will have highlighted the impact of your relatively fixed cost structure. Even though you were able to eventually reduce variable costs, it took time and had an impact on morale. The lessons learned from the requirement to work remotely during the crisis will affect your perception regarding what work could be outsourced. Review all opportunities to outsource services on a variable cost basis to minimize your exposure to sudden volume shocks. Ideally, for outsourced services to make sense, they should be better, faster, and cheaper than inhouse services.

Assuming the gap will be too large to close with traditional Operating Levers and Portfolio Levers alone, consider **Clinical / Quality Levers** including unnecessary variation and the cost of off quality. Often this improvement subsumes some of the benefits from operational improvement – you do not need to make something more efficient if you stop doing it all together – but it takes longer to gain momentum. If you already have meaningful efforts underway, accelerate your efforts to improve the known opportunities for improvement. Expand the scope of the improvement efforts that you have been willing to undertake – reaching to those physicians or patient populations deemed before to be too difficult.

If you are just launching a serious effort, you will need to build agreement with the data you will use to measure process and outcomes, establish physician governance, and install the appropriate physician / group incentives. The most aligned physicians will not require this structure to be in place before engaging with you; however, the infrastructure will be critical for success with the least aligned physicians. Early waves of improvement will help refine the infrastructure as you build momentum.

Rather than starting with the areas of most opportunity, start with the areas of highest natural alignment with the physicians. Work through a high-engagement, Rapid Redesign Team process designed to generate breakthrough results. Build momentum while you take the time to establish the Alignment Infrastructure necessary to overcome the resistance of the less aligned physicians. Then continue with additional waves of Rapid Redesign Teams building a track record of success that will overcome the resistance of the lagging physicians.

Clinical improvement is likely to drift over time and requires monitoring daily, weekly, and monthly metrics to identify that drift and take corrective action before new (or old) bad habits take hold. You will need to install the appropriate monitoring tools and processes - linked to the governance and incentives that you have in place - to ensure that you maintain momentum.

CONCLUSION

Your top priority is to know how much runway is available to solve the financial issues you face in the next several months. The length of your runway and the nature of your pending covenant defaults will drive how aggressively you will pursue your financial turnaround. Many organizations will need to pull all available levers.

However, even if you have an urgent situation, you cannot focus entirely on the Financial Turnaround and lose the chance to take advantage of the strategic opportunities that emerged from the lessons learned from the crisis. These opportunities will show up in traditional Operating Levers (e.g., redesigned processes), Portfolio Levers (e.g., eliminating sacred cows), and Clinical / Quality Levers (e.g., telemedicine). We discuss other strategic opportunities in Leveraging a Strong Balance Sheet. So, dedicate time to this strategic discernment and integrate the opportunities into your Financial Turnaround plan.

Galloway has developed a comprehensive work plan to accelerate your recovery based on conversations with leading healthcare executives and our experience leading financial turnarounds, customized for your situation.

Our thoughts on other related topics can be found by following the link to INSIGHTS on our website:

Securing Cash Flow

Leveraging a Strong Balance Sheet

Engage Board and Staff

Preparing for the Next Wave

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Galloway Consulting helps hospital groups, physicians, and payer/providers improve operations, outcomes, and profits so they can better serve their communities. Our healthcare team has mastered every aspect of the business.

Mitchell Galloway is the CEO and co-founder of Galloway Consulting and built his reputation by helping healthcare executives transform their organizations, often achieving landmark results on seemingly impossible timetables. Among the country's foremost authorities on organizational strategy, he takes the lead role with our clients, rapidly diagnosing the challenges they face and prescribing innovative, timely, and effective responses. Mitch has been in the healthcare business for his entire thirty-five-year career, starting his first consulting business 28 years ago. He has an MBA from Emory University's Goizueta Business School, where he achieved the #1 class ranking and was recognized as the Outstanding Graduate Student in the field of Organization and Management. He has a Bachelor of Science in Health Systems from the Georgia Institute of Technology.

