

# Cracks in the foundation: 5 structural defects are undermining nonprofit healthcare

Everyone who works in healthcare understands one simple fact: It's a business. But we can't ever forget it's also a business with a soul.



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One person who inspires me with that message is Naresh Trehan, a globally renowned cardiothoracic surgeon and founder of Medanta, India's

premier destination for advanced care. Trehan's approach shines through on his company's website ([medanta.org](http://medanta.org)). Under the heading "Where Healthcare Meets Hospitality," for instance, it's summed up with the statement: "At Medanta, you will instantly discover that you are so much more than just a patient."

Think of the connection between the words *hospital* and *hospitality*. I think that's a connection every U.S. nonprofit health system should take to heart.

## 5 SYSTEM DEFECTS STAND IN THE WAY

The problem is that, despite their mission-based orientation and nonprofit tax status, it seems most nonprofit health systems have lost their way. Paraphrasing Shakespeare, the devil can quote mission statements for his own purposes.

The relentless organizational imperative to optimize revenues under fee-for-service medicine has fragmented care delivery, triggered unsustainable cost growth and severed vital connections with American consumers.

What went wrong? I submit it is the unfortunate consequence of long-standing structural defects that have prevented nonprofit health systems from better serving customers. To recapture their "lost souls," nonprofits must address five structural defects, described below.

It won't be easy: There's an interplay among these structural defects that compounds the disfunction they have caused. Yet only by overcoming them can a nonprofit effectively respond to healthcare's rapidly evolving marketplace and achieve true long-term sustainability. It is a *just cause* for the nonprofits because it's about improving care delivery value and community health. Let's take a closer look at each of these defects and the challenges they pose.<sup>a</sup>

## 1 ARTIFICIAL ECONOMICS

In normal markets, intrinsic demand for products and services drives supply. Healthcare reverses the equation. Facility and practitioner supply drives demand for diagnostic and treatment procedures. More cardiac surgeons generate more cardiac procedures, irrespective of intrinsic market demand.<sup>b</sup>

Nonprofit health systems cannot fight gravity forever. Systems clinging to business models based on artificial economics risk losing customers to value-based healthcare companies better positioned to serve those customers' needs. Nonprofits that embrace transformation, consumerism and value will gain market share the old-fashioned way, by earning it.

a. In future columns, I will discuss each defect in greater detail and the efforts that will be required to address it.

b. See, for example, Chapter 4 of Brownlee, S., *Overtreated: Why too much medicine is making us sicker and poorer*, Bloomsbury USA, 2007.

## 2 MISMATCH BETWEEN NEEDS AND SERVICE

The U.S. healthcare system is not providing the healthcare services that Americans need. According to the CDC, 90% of the nation's healthcare expenditures fund chronic disease and mental health treatments.<sup>c</sup> Moreover, the U.S. healthcare system's massive over- and under-emphasis on treatment and prevention respectively contribute to national declines in health status and life expectancy.<sup>d</sup>

Consequently, Americans do not receive the vital primary care, health promotion, behavioral health and care management services they require to sustain their well-being. Far too often, they don't access care until health crises strike.

More of the same crisis-care delivery will yield more of the same dismal health outcomes. Failure to meet Americans' basic healthcare needs makes providers vulnerable to more agile competitors that deliver appropriate and timely care services at competitive prices.

## 3 BRITTLE BUSINESS MODELS

Health systems rely on centralized, high-cost platforms (e.g., hospitals) for routine treatment and diagnostic services. This business model optimizes revenues under fee-for-services payment, but it is inefficient and asset-heavy. It fragments care delivery, causes excessive medical errors and frustrates consumers and caregivers alike.

Hospitals have a relatively mature service mix. Most mature industries decentralize to lower costs, to be closer to customers and/or to increase customer convenience. It's the natural pattern of market evolution, and nonprofit health systems are not immune. To remain competitive, nonprofits must decant routine services

to more convenient, lower-cost virtual, retail and home-based delivery modalities.

Nonprofits have been slow to adapt to shifting market dynamics because of their expansive facility investments and high labor costs. The *brittleness* of their business models is a strategic liability. It leaves their market positioning vulnerable to disruptive healthcare businesses, particularly those that reduce demand for acute care services.

## 4 REGULATORY HEADWINDS

Absent COVID-19, the biggest 2020 healthcare news stories were the adoption of expansive data interoperability and pricing transparency regulations. These pro-market regulatory initiatives level the competitive playing field and reward value-based service providers.

Overall, the regulatory climate is becoming hostile to health systems. More pro-market, pro-consumer policies make it difficult for them to continue business practices that, despite being profitable, contribute to health disparities, reduced patient convenience and higher costs.

## 5 INADEQUATE LEADERSHIP

Boards of nonprofit health systems tend to be large, voluntary, philanthropic and lacking in needed expertise. They often cannot provide sophisticated business guidance and adequate oversight. Compounding the challenge, the nonprofits' executives work under management contracts that incentivize short-term fixes, not long-term repositioning.

As a result, the boards tend to be strategically defensive, support status-quo business practices and defer to management on major organizational decisions. They prefer full operational ownership and control, making consolidation difficult. They resist risk-based strategic partnerships. Consequently, they rarely advocate for transformative efficiency improvements and/or repositioning.

Given healthcare's turbulent operating environment, the nonprofits' boards need to become

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Approximate number of CABG surgeries performed by Medanta Heart Institute in India since it was founded in 2009, testifying to how patients have responded positively to the humanity of its approach

c. CDC, "Health and economic costs of chronic diseases," page last reviewed June 23, 2021.

d. Venkataramani, A.S., O'Brien, R., and Tsai, A.C., "Declining life expectancy in the United States: The need for social policy as health policy," *JAMA Network*, Feb. 16, 2021.

more responsive to organizational and community needs — and more proactive in setting strategy and establishing greater accountability for performance, community benefit levels and communitywide health status.

### **AN UNSUSTAINABLE MODEL DEMANDS CHANGE**

Nonprofits are at a crossroads, as they face an existential threat from the five structural defects outlined here. If they are to respond and ultimately thrive, their management and board governance must align to transform entrenched and counterproductive business practices.

Indeed, if I were to point to a single defect to our healthcare system that we can address immediately, it's our inadequate leadership. There's never been a greater need for strong leadership. Investing in high-value care delivery

that overcomes systemic defects will require tough resource allocation decisions.

But there's also a more fundamental need. We cannot forget the *soul* of healthcare when making those decisions. I would urge all leaders of nonprofit health systems to embrace the message of visionaries like Naresh Trehan: Let's make *hospitality* the centerpiece of the healthcare we deliver. If we do that, while also delivering better outcomes at lower costs, our nonprofits will thrive in concert with our communities for generations to come. ■

About the author

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**Editor's note:** In future columns, David W. Johnson will discuss each of the defects described here in greater detail and the particular efforts that will be required to address it.