

Estimate of the Situation

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Navigating through the Chaos

A paradigm is a set of assumptions, concepts, values, and practices that constitutes a way of viewing reality for the community that shares them, especially in an intellectual discipline.

“Paradigm shift” has achieved overused buzzword status. That’s too bad. According to Thomas Kuhn’s original definition, the term describes an unexpected change to a different mental model of the world. A paradigm shift is hard to spot, especially if one happens to be located in the epicenter, and that is where hospital governing bodies, management teams, and physicians now find themselves. Even more difficult than spotting a paradigm shift is deciding what to do about it. When the world changes and the old assumptions, concepts, values and practices do not change with it, unpleasant outcomes will almost certainly result.

It is important going forward to understand that a new market-based care option is emerging that will compete directly with the centrally-regulated model that has shaped and controlled U.S. hospitals since at least 1964. Third Party Payment System stakeholders will oppose its development vigorously out of self-interest.

Among the factors motivating the shift is the fact that hospital operating expenses are continuing to grow at a faster rate than operating income. This reality conflicts directly with one of the old paradigm’s core assumptions. *The New York Times* reported in its August 27 edition that Moody’s Investors Service described [the situation as unsustainable](#). In today’s circumstances, the old economy-of-scale based practice of acquiring additional revenue through mergers and acquisitions is not succeeding. As we have often noted on these pages, resources consumed in institutional maintenance are not available to do the institution’s work. At present, hospitals are expending tremendous financial resources and executive energy to comply with various government mandates, all of which have increased expense and none of which have produced any net improvement in operating income. Additional ACA and HIPPA mandates (including ICD-10 by October 1st) are scheduled for 2015. That is institutional maintenance on a hyper scale.

Last night’s national election results have done nothing to clarify the future for hospital governing bodies and management teams. It is probable that serious efforts will be undertaken to repeal or significantly modify *The Affordable Care Act* and at least some of its more unpopular mandates. ACA repeal efforts, the decision to opt out of ACA participation by nearly [one-quarter of U.S. physicians](#), and the rapid emergence of free market [physician-owned hospital](#) and [primary care clinic](#) competitors may force community hospitals to develop alternatives to continued participation in the Third Party Payer-centered system. The next few months will be particularly challenging.

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