EXECUTIVE SUMMARY:

THE FUTURE OF THE SMALL RURAL HOSPITAL

A POLICY REVIEW FOR THE MILBANK MEMORIAL FUND

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INTRODUCTION. The Milbank Memorial Fund commissioned a series of papers for a "Hospitals and Health Services Policy Review." This part of that review, "The Future of the Small Rural Hospital," focuses on an institution that, on the one hand, has remained most like the traditional hospital of the past, but on the other, is most likely to change its fundamental structure to meet the demands of a changing health care environment—the small rural hospital. The rural hospital has been the subject of substantial independent research and analysis in the nation's universities and in contract research firms; three major reviews of the scientific literature focusing on the rural hospital have been published since 1989 alone. The immediate impetus for this attention is the perception of the threatened demise of these long-time providers of community health care. Many policy makers, researchers, rural residents, and administrators lament the deteriorating financial status of rural hospitals and their increased rate of closure. However, there is dissonance within the community of scholars and hospital advocates about the negative forecast for rural hospitals. This review examines both the attention that has been paid to the small rural hospital and the underlying questions about its status and its future in the United States health care system.

THE REVIEW. This analysis of the future of the small rural hospital is based on both the literature pertaining to rural hospitals and the opinions of rural hospital administrators, providers and policy makers expressed in focus groups and

a targeted survey. The literature about the financing, accessibility, quality and innovations of rural hospitals was reviewed and synthesized. Project staff compiled a bibliography of published and unpublished studies about or relating to small rural hospitals in the United States from 1980 through 1991. From that list, approximately 150 articles were annotated based on their relevance and analytic content. This body of literature is considered comprehensive and representative of a "state of the art" understanding of rural hospitals.

Complementing the quantitative research presented in the literature was the qualitative assessment of the salient issues and trends for the small rural hospital, assessed through a survey and focus group meetings. In March, 1992, a survey was sent to selected administrators, rural hospital representatives, policy makers and researchers to elicit a range of policy and operational options for the small rural hospital. The sample was drawn from listings of published researchers from our literature review, the membership of the Section on Small or Rural Hospitals of the American Hospital Association, the National Rural Health Association Board and membership lists, federal and state officials identified with small rural hospital policy making, and key legislators who have sponsored bills or shown interest in the small rural hospital. It was not meant to be a scientific sample of opinions or a summary assessment of the future of the small rural hospital, but rather a method to capture the range of dissonance between groups about options for the future. Fifty-two of 105 people (49.5%) responded, offering rich descriptive data about their concerns and perceptions of the most salient trends.

The second source of qualitative information was a series of three meetings that elicited in-depth discussion of the consensus and conflict about the future of these institutions. The first, conducted January 22, 1992, in Chicago, convened

representatives of the American Hospital Association to discuss their views on directions for the small rural hospital. The second group meeting, conducted February 11, 1992, in Washington, D.C., concerned federal policy toward rural hospitals; attending were individuals from the Prospective Payment Assessment Commission, the Congressional Budget Office, the Rural Health Caucus and the Rural Health Care Coalition from the U.S. Senate and House, and the Health Care Financing Administration. Third, a panel of researchers and rural hospital administrators plus an audience of over 50 people met at the National Rural Health Association's annual meeting on May 9, 1992, in Alexandria, Virginia, to debate some basic assumptions about the performance, role, and future of the small rural hospital.

The focus group and literature-based information is synthesized in the final report by theme, with preliminary sections describing the findings from each source of information. The recommendations stem from both the consensus of the various contributors and the gaps and neglected topics that emerged.

FINDINGS AND CONCLUSIONS. The future role of the small rural hospital in the United States is as much a political issue as it is a health systems or health planning concern. Rural hospitals are very sensitive to government policies which, on the one hand, discriminate against them and, on the other, serve to protect them. These conflicting polices are not always based on well-implemented health services research and policy analysis. This review of the future of the small rural hospital has led to several general conclusions concerning the relationship between policy and research on rural hospitals. Likewise, the review offers insights into what the future might hold for these institutions. These summary statements address both specific and general issues important to rural hospitals and rural

constituencies. Since the issue of federal payment policies has not completely receded beyond the horizon, we begin with that issue and then move to other salient issues of concern to small rural hospitals:

- Studies of rural hospital viability indicate that the internal characteristics of the rural hospital such as its structure and management, and more localized external forces, such as the choice by local residents to use larger and urban hospitals, have had as strong an effect as federal payment policies.

- Access to some form of medical care in rural communities does not appear to be closely related to the presence of a hospital.

- The rural hospital's role as a source of a community's local pride and social identity is recognized, but remains difficult to quantify and factor into formal analyses. The economic role of the local hospital is important, but the efficiency of investment in hospital services versus other services or production activities has not been examined.

- Quality of care in rural hospitals is found to be high where it has been studied and reported.

- Strategic decision-making is often recommended as a positive step toward the improvement of rural hospitals' financial and clinical performance but there is little research to indicate that strategic decision-making actually improves these outcomes.

- Multi-institutional relationships such as linkages, cooperation, and integration are a popular strategy but their effect on hospital viability is not well understood.

The scientific literature that examines the small rural hospital does not adequately cover all of the potential issues that can seriously affect the future of the rural hospital. Three areas that are understudied and seldom used as pathways for policy implementation are the quality of administration, the determination of essential services for communities, and the quality of patient care. The quality of management within the hospitals and the relationship of governing boards and community leaders to hospital performance are seldom considered in analyses of rural hospital performance. These gaps should be addressed. There is no clear consensus on what constitutes the minimum necessary set of hospital-based or hospital-like services for rural communities. This is necessary for guidance in policy making for either the transformation of hospitals or the provision of minimum service systems. The quality of patient care in rural hospitals has been addressed in small-scale studies focusing on a single condition or a restricted range of conditions, but a general analysis of the quality of care in these institutions is lacking.

Future of the Small Rural Hospital

The review has given us a glimpse at the probable future for these institutions and some understanding of the range of options open to them. They represent what we consider the logical extension of current trends and existing options. There will be small-scale changes but the general characteristics of the hospital system will persist due to its size and momentum. The place of the rural hospital will change,

even if not dramatically in the short term. We see the following trends for rural hospitals into the twenty-first century:

- The deterioration of the physical plant for a substantial number of rural hospitals will mean expensive renovation or replacement if these institutions are to continue as full service hospitals. This same trend will also mean that the continued use of buildings that are converted from hospitals to other uses will also require substantial capital investment.

- Market pressure to diversify within the single organization will be countered by pressure for the founding of alternative, self-sufficient organizations with a more focused service scope that can successfully compete with rural hospitals. There is no clear logic for the vertical bundling of health care services in the rural environment given current payment systems. The ability of smaller organizations to adequately manage this diversification is not proven nor are adequate managerial resources available.

- The loss of health care providers from rural areas will continue to exert a significant influence on the ability of health care delivery organizations to operate. Services and professionals will move to market centers leaving a weaker periphery as virtually all professional services tend to centralize. This centralization will not be based on rational regionalization and will leave substantial populations without adequate access to services.

- Telecommunications will not adequately overcome distance until these systems can be used much more easily, can include a sufficient amount of data to be

comprehensively usable by a range of clinicians, and are understood to be simple, necessary tools as opposed to high-technology fixes.

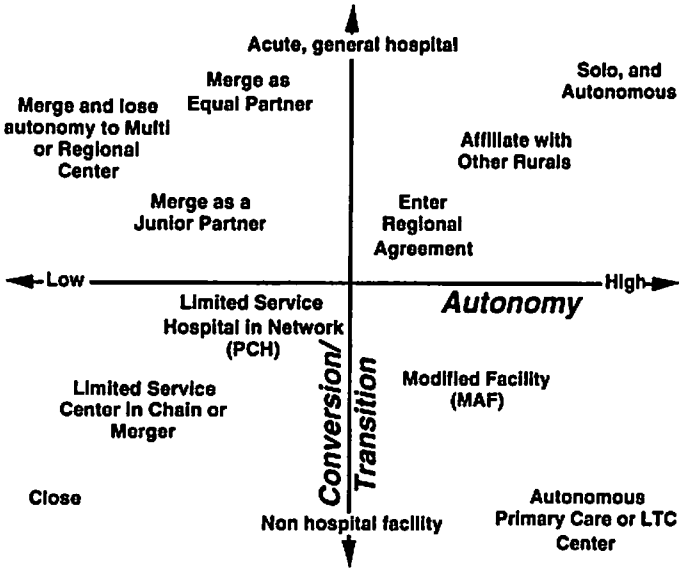
- The role of rural hospitals in training or affecting the distribution of health care professionals is not well understood and may be a key to understanding the pace and direction of change within the hospitals themselves as well as in the search for strategies for capacity-building for rural communities.

- The rate of closure of small rural hospitals will remain steady at 1985-1990 levels until the institutions without sufficient capital resources to modernize or make a strategic transition to another function have been closed. Substantial investment in their physical plants will be required if these institutions are to survive, whether they continue as hospitals or are converted from hospitals to other uses. Adequate funds will not be available from government or private philanthropy to support the comprehensive transition of at-risk rural hospitals into optimal community care organizations.

The Range of Options. The rural hospital of the future will have several options to choose from in its effort to cope with its environment. Essentially, these can be arrayed on two axes (as depicted below): one describing the degree of autonomy the institution will have and the other its structure and range of services. Currently, the archetypal rural hospital is highly autonomous and functions as a full-service inpatient hospital and occupies the upper right-hand corner of this visualization. Many small rural hospitals have changed their form and service mix and can be described in other parts of the matrix. The changes that are possible in the future can be identified in some part of this two-dimensional space.

The choice for autonomy does not necessarily require that the hospital singularly competes with others. For example, autonomy may be maintained in a regional arrangement wherein the larger hospital considers the rural hospital a resource for its patient flow needs and the rural hospital, in turn, receives a measure of security in that the larger hospital does not directly compete and perhaps provides services or support. This system could be voluntary or part of a planned system sponsored by a state agency that has some leverage over the allocation of resources.

Potential Configurations for the Small Rural Hospital



Though the numerous individual community situations allow for wide-ranging conversion or transition possibilities, this potential is bounded by existing laws and payment policies. The willingness of state legislatures to respond to calls for modifications to the regulations for rural hospitals has been surprisingly high and flexibility in national programs, like the EACH/PCH regulations, may follow as the stability of current experiments is demonstrated.

In Conclusion. The future of the small rural hospital is, based upon this review, less than bright if we are to continue to consider these institutions as acute care,

general, inpatient care facilities. It is equally clouded if we are to wish for independent, self-reliant health care organizations based in small communities. There has been significant innovation and change, experimentation and sensitivity to new policies; this would indicate that the rural health care environment can teach us how to better shape policy if we carefully analyze performance in these new organizations and operating structures. Our experiences with national programs that differentiate between urban and rural communities can also help us understand how to better make equitable policies if, again, we carefully analyze the effects of those policies.